Annual Report for 1972 Occidental Petroleum Corporation

File

Occidental Petroleum Corporation
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Contents

COVER: Surrounded by dense green jungle foliage, the drilling derrick of Occidental Petroleum Corporation's first crude oil discovery well in the upper Amazon region of north-central Peru juts up as a beacon for a Peruvian army helicopter delivering sacks of drilling mud in a net sling

Financial Highlights

	1972	1971
Net sales and other revenues	**$2,720,847,000**	$2,635,208,000
Income (loss) before extraordinary items	**$ 19,675,000**	$ (48,018,000)
Extraordinary items	**$ (9,256,000)**	$ (18,984,000)
Net income (loss)	**$ 10,419,000**	$ (67,002,000)
Preferred stock dividend requirements	**$ 19,184,000**	$ 20,344,000
Net (loss) applicable to common shares	**$ (8,765,000)**	$ (87,346,000)
Net income (loss) per common share before extraordinary items	**$ 0.01**	$ (1.26)
Extraordinary items per common share[1]	**$ (0.17)**	$ (0.35)
Net (loss) per common share after extraordinary items	**$ (0.16)**	$ (1.61)
Total assets at year end	**$2,562,047,000**	$2,580,028,000
Additions to property, plant and equipment	**$ 181,502,000**	$ 216,927,000
Shareholders' equity[2]	**$ 830,593,000**	$ 839,359,000
Operating cash flow[3]	**$ 120,311,000**	$ 150,606,000
Average number of common shares outstanding during year	**55,104,000**	54,211,000
Number of common shareholders at year end	**303,000**	320,000
Number of preferred shareholders ($8.00, $4.00, $3.60, $2.16) at year end	**48,000**	48,000
Number of employees	**31,500**	33,000

[1]Based on average number of shares outstanding.
[2]See consolidated statement of shareholders' equity.
[3]1972 cash flow is after payment of $29.3 million charged to emergency tanker fleet reserves established in 1971.

Corporate Highlights

Gross Revenues Reach Highest Total in Company's History	$2.7 billion revenues top previous record of $2.6 billion in 1971. Net 1972 income $10.4 million versus previous year's net loss of $67 million which included $65 million charged to emergency tanker fleet reserves. Operating cash flow approximately $120 million, after paying $29.3 million charged to emergency tanker fleet reserves, compared to $151 million cash flow in 1971.
Occidental in Strong Financial Position at Close of Year	Company concludes 1972 with $182 million in cash plus $72 million in unused committed revolving long-term bank credit lines and with additional open lines of credit available. Total assets $2.6 billion and shareholders' equity $831 million. Working capital at year end 1972 $253 million, up $15 million from year end 1971.
Company's Capital Expansion Programs Carried Forward	Capital expenditures of $182 million in 1972 compare to 1971 total of $217 million. Reductions principally in coal division with international oil exploration programs carried forward as planned.
Low-Sulphur Crude Oil Discovered in Three of Company's Four International Exploration Areas	First two wells drilled in Peru's Amazon jungle are new discoveries. Two joint venture discoveries made offshore Nigeria. Occidental group's first British North Sea discovery well tests at 8,848 barrels of oil per day and follow-up well 32,129 barrels per day. Engineering begun on permanent platform for development drilling in North Sea. Exploration continues in south Lake Maracaibo, Venezuela, although results disappointing to date.
Trans-Andean Pipeline to Link Amazon Basin in Peru with Pacific Coast	Peru's state oil company, Petroperu, lets engineering contract for major pipeline which will link area of Occidental's and Petroperu's recent oil discoveries with Pacific Ocean for tanker shipments to international markets. Discussions in progress with Petroperu on joint use of pipeline. Occidental brings in second rig to accelerate Peru drilling program.
Domestic Oil and Gas Activities Result in More New Wells	Company drills or directly participates in 82 new wells in United States during 1972 resulting in 55 completions, compared to 74 wells and 32 completions in previous year. 1972 results include three new field discoveries.
Production of Gas Liquids Products Begins in Libya	New plant and 135-mile products pipeline go on stream producing and transporting naphtha, butane and propane, with plant using gas from Occidental's Libyan fields. New gas liquids markets developed with products sold to customers in Europe, North Africa, South America and Japan.
Crude Oil Continues to Flow from Occidental's Fields in Libya	Production during 1972 averages 424,434 barrels per day compared to 586,400 barrels per day in 1971. Reduction caused by government-ordered cutbacks in production. Difference largely made up by Occidental through purchases of oil from other sources at costs no higher than those of company's own Libyan crude production. Participation talks proceeding, but no indication of agreement between government and producers.

Canvey Island Refinery Project in Greater London Area Moves Ahead

Preliminary engineering studies completed on Occidental's proposed 120,000 barrels per day refinery to be located in Thames River Estuary. Construction due to begin before year's end. Refinery viewed as important asset to future of refining and marketing operations especially in light of Occidental group's recent British North Sea crude oil discovery.

Domestic Crude Oil Marketing Division Has Excellent Year

Volume of crude oil handled by The Permian Corporation increases in 1972, averaging 471,000 barrels per day versus 452,000 in 1971. Gross revenues and net income both top prior year's totals.

Island Creek Coal Division Posts Gain in Profits

Earnings rise in 1972 compared to 1971. Incentive program for supervisory mine personnel increasing productivity. Recent negotiations in utility coal contracts add to improved profit outlook. Island Creek's reserves total 3.5 billion tons of steam and metallurgical coal at year end.

Chemical Division's 1972 Sales and Profits Surpass Those of Previous Year

Sales of three groups comprising company's chemical division (excluding Canada) rise 16 per cent over 1971 to $808.6 million. Profits move up 147 per cent. Improved performances recorded throughout entire division. Florida phosphate rock mine production being expanded with addition of giant new dragline. Increase in superphosphoric acid (SPA) production also planned.

Canadian Occidental Petroleum Ltd. Has Successful 1972

Company's 82 per cent-owned subsidiary shows 1972 net of $5.3 million (Canadian funds) equal to 79 cents per share versus $3.3 million or 55 cents per share in 1971, up 61 per cent. Gross revenues and net cash flow also increase. Canadian Occidental obtains 20 per cent participation in 2,648-acre oil tract offshore Louisiana. Exploration drilling currently under way.

Occidental Signs Five-Year Scientific and Technical Cooperation Agreement with U.S.S.R.

Pact covers exploration, production and usage of oil and gas, agricultural fertilizers and chemicals, metal treating and plating, design and building of hotels, and utilization of solid wastes. Contract signed covering sales of metal-finishing equipment to Russia and purchase of nickel by Occidental, together aggregating about $80 million. Other negotiations pending.

Occidental-Holiday Inns Ventures Expand in Europe

First Holiday Inn joint venture resort hotel in Europe opens in Monte Carlo, Monaco. Other Holiday Inns, in which Occidental is a joint venture partner, scheduled to open during 1973 in Zurich and Regensdorf, Switzerland. New hotel planned for Lagos, Nigeria, in joint venture with Nigerian government.

Solid Waste Processing Plant Project Approved by California County

Construction of $4 million, 200 tons per day demonstration plant using municipal refuse (garbage and trash) to produce synthetic fuel oil and other products approved by County of San Diego, California, board of supervisors. Plant to use Garrett pyrolysis process developed by Occidental's research and development division. Fuel oil produced in plant to be utilized by San Diego Gas and Electric Company. Project to be supported by federal EPA grant with funds released when site for plant approved.

To the Shareholders

Dr. Armand Hammer, Chairman of the Board, President and Chief Executive Officer

Robert J. Caverly, left, Executive Vice President for Operations; W. Marvin Watson, Executive Vice President for Corporate Affairs

The success of Occidental's foreign oil exploration this past year could very well make 1972 one of the two most significant years in our history in terms of its effect on the future of your company, ranking along with the discovery of oil in Libya in 1966.

In our annual report a year ago, we described four exploratory oil prospects in four separate geographical areas of the world where Occidental had acquired oil rights—in each case won in competition with some of the world's leading international oil companies and governmental entities. Since then, in a period of less than 12 months, your company has had the unprecedented success of making significant discoveries of low-sulphur, high-gravity oil in three of these four areas—Nigeria, Peru and the North Sea—and we have active exploration in progress on the fourth, Venezuela.

Discoveries in Oil and Gas Areas

These discoveries are all in areas in which major accumulations of crude oil and natural gas have been discovered by other companies. Further drilling now under way will delineate the extent and characteristics of these producing areas. From these results, independent petroleum engineers will be able to determine and evaluate the reserves which could then constitute assets available for the financing of field developments, production facilities, pipelines and terminals, as was the case in Libya.

As new areas are placed on production, your company will be achieving a paramount objective of developing diversified sources of crude supply. With the demand for oil throughout the world at an all-time high and the pinch of critical shortages in the United States which have required large increases in imports of foreign crude oil and finished petroleum products, the potential impact of these discoveries in relation to the future of Occidental is apparent.

Nation Facing Energy Crisis

The threat of an energy crisis which, until recently, had been taken rather lightly, was demonstrated to the American people in a dramatic fashion this past winter. The National Petroleum Council's report on the United States energy outlook, published in December, 1972, predicts that, during the decade ending in 1980, the nation's demand for energy will have increased more than 51 per cent, and that by 1985 it will have approximately doubled.

It is abundantly clear that, for ecological reasons, the bulk of this increase will come from new sources of natural gas and low-sulphur oil. The importance of this to Occidental is that, in the testing of every successful well drilled to date in our three discovery areas, each has produced this type of high-quality crude oil.

Company Sees Profit Recovery

As reflected in the accounts of our various divisions throughout this report, 1972 marked the beginning of a period of profit recovery for your company.

Net earnings for the year of $10,419,000, following the loss of $67,002,000 in 1971, represent a profit turnaround of $77,421,000 between the years. The largest single factor affecting 1971 was the reserve of $65 million taken in the fourth quarter against possible future losses on tanker operations. Elimination of those losses has, of course, benefited this year's results. Gross revenues of $2.7 billion for 1972 were an all-time record high for the company, topping the $2.6 billion in 1971.

After deducting preferred dividends of $19.2 million in 1972 and $20.3 million in 1971, primary loss per common share was 16 cents in 1972 compared with a loss per share of $1.61 for 1971. However, before deducting extraordinary charges of $9.3 million, substantially all resulting from fluctuations in foreign exchange, your company's net earnings amounted to $19,675,000 for the current year or a profit of one cent per common share after providing for preferred dividends. On the same basis, 1971, before extraordinary items, resulted in a loss of $48 million or $1.26 per common share after preferred dividends.

Profitable Fourth Quarter

The bulk of this improvement came about, as predicted, during the fourth quarter principally from stronger petroleum markets abroad, rising tanker rates and accelerating profits from all segments of the chemical and fertilizer industries. Also, the real estate division began to show a profit during the period. Earnings for the fourth quarter of 1972 amounted to $9,655,000 or a profit of nine cents per common share after the payment of preferred dividends. The same period of 1971, in which the tanker reserve was taken, showed a loss amounting to $121,447,000 or $2.33 per common share.

Despite the continuation of the production cutback in Libya, company-wide gross revenues for the fourth quarter in 1972 reached $728.8 million compared with $616.5 million of revenues the previous year, an increase of 18 per cent. Average common shares outstanding amounted to 55,104,000 in 1972 versus 54,211,000 in 1971.

These factors are expected to continue throughout 1973. Also, through recently negotiated major improvements in several utility coal contracts, profits of the coal division have already begun to move upward.

At year end 1972, your company had cash of $182 million and unused committed long-term revolving credits of $72 million. Working capital amounted to $253 million, an increase of $15 million over the previous year. Assets totaled approximately $2.6 billion, and shareholders' equity was approximately $831 million, evidencing the soundness of your company's financial condition.

Concerning Dividend Payments

Regular quarterly cash dividends on all series of preferred stocks were paid throughout 1972 and are being continued. One cash dividend at the rate of 12½ cents per share was paid on the common shares in January, 1972, but as a consequence of the loss in 1971, the payment of common share dividends has been temporarily suspended.

Oil and Gas Division

International Exploration

Our annual report last year discussed four areas in which Occidental would conduct exploration drilling during 1972. The following is a summary of the success achieved through the discovery of oil in three out of four of these areas—offshore Nigeria, the Amazon jungle of Peru and the United Kingdom North Sea.

Continuing exploration operations and extensive appraisal drilling will be conducted during the remainder of this year to evaluate these new discoveries. In view of the impending energy shortage, we are exerting every effort to complete exploration and development programs rapidly in order to make our oil available to world markets as soon as possible.

United Kingdom North Sea

The most significant of these discoveries was in the British North Sea. Our first well was completed in January, 1973, on Block 15/17 by Occidental as operator for a group holding a production license on 316,000 acres. Occidental has a 36.5 per cent interest in this group which includes subsidiaries of Getty Oil Company, Allied Chemical Corporation and Thompson Scottish Associates, Limited.

The discovery well, 15/17-1A, flowed at a combined rate of 8,848 barrels per day of 37 degree gravity low-sulphur oil on production tests of two zones at depths of approximately 7,600 feet. This discovery was made in the first well drilled by a new self-propelled, semi-submersible all-weather drilling rig, Ocean Victory. Previously, two unsuccessful exploratory wells had been drilled from a drillship during the past summer, one of which had noncommercial shows of oil.

First Delineation Well Successful

Our second well on this block, 15/17-2A, drilled about two miles north of the initial discovery, was completed in March, 1973, testing at the combined rate of 32,129 barrels of high-quality crude oil per day from two intervals at depths below 8,000 feet.

The success of this well on Block 15/17, which is located about 50 miles northwest of the gigantic multibillion-barrel Forties field of British Petroleum Company, establishes the presence of large oil reserves located close to extensive markets in Europe. It also improves the prospects for success on our other four blocks in the same area. With the information gained from these two successful wells, additional exploration is planned in these blocks as well as further appraisal drilling in Block 15/17.

An appraisal and development drilling program has been mapped out to determine the best way to develop and produce this field, and engineering has begun


OCEANEER II

on the construction of our first permanent drilling-production platform. Based on projected timetables, our new field, named the Piper field, could be on production by the end of 1974 or early 1975.

Our most northerly block, 210/29, located near recent new discoveries by the Shell and Esso companies, has not yet been tested. This block will be drilled as soon as rig availability permits.

Offshore Nigeria

During 1972, two discoveries were made on Occidental's four oil prospecting licenses offshore Nigeria in which your company is operator and 49 per cent owner under our joint venture with the Nigerian government, which holds the remaining 51 per cent.

Our second exploratory test resulted in Occidental's initial discovery, well 90-B1 on Block 90 which, on production tests during July, 1972, flowed at the combined rate of 18,600 barrels per day of 34.5 degree gravity oil from two zones at depths of about 7,600 feet and 9,300 feet. Our next well, 88-A1, which was drilled on Block 88 about 17 miles west of the initial discovery, flowed in production tests at the rate of 6,122 barrels per day of extremely high-quality 42.5 degree gravity oil which is comparable to our high-grade Libyan Zueitina crude.

Prolific Oil Province

Nigeria has become one of the world's most prolific oil provinces with daily production now approaching two million barrels per day, some of which is recently developed offshore production.

Appraisal drilling was begun by your company in January, 1973, to determine the extent of the two discoveries. Several structures on the 710,000 acres of oil prospecting licenses remain to be tested, and we are optimistic about the potential of our remaining prospects off the Nigerian coast.

Peru Oriente Region

Occidental's first two tests in our 2.9 million-acre tract in the Amazon basin of Peru have resulted in two important discoveries. This record is the result of Occidental's pioneering with an intensive seismic exploration program which was conducted under extremely difficult jungle conditions. The seismic work got under way soon after the signing of our historic production-sharing contract with Petroperu, the Peruvian national oil company, in June of 1971. Following Occidental's lead, many important international oil companies have obtained contract rights in Peru.

In October, 1972, our first well, Capahuari 41-X1, tested at the rate of 2,650 barrels of 36.4 degree gravity low-sulphur oil from a depth of about 12,750 feet. This first discovery was made on a large structural feature more than seven miles long and three miles wide.

Our second exploration well, drilled on another large structure nine miles to the south, is also a discovery. This well, Capahuari Sur 43-X1, tested 2,887 barrels per day of low-sulphur 36.2 degree gravity oil from an upper zone at approximately 11,900 feet which was not

Diving bell breaks surface beneath semi-submersible drilling rig after crew inspects underwater wellhead safety equipment at company's first oil discovery site in Nigerian waters off Africa's west coast

Brilliant burst of flame lights up huge semi-submersible rig Ocean Victory during controlled production test at Occidental group's first oil discovery in British North Sea. Below, roughneck latches tongs onto drill pipe in Peru where company has made recent oil discoveries

productive in our first well. A second zone was tested at the rate of 3,464 barrels per day of similar quality oil from a depth of about 12,650 feet for a combined rate of 6,351 barrels per day.

Second Drilling Rig Added

Encouraged by the first two discoveries, and to accelerate the definition of potential major reserves as quickly as possible, your company has added a second rig to its jungle operations. This rig is being erected and will soon be put to work to test additional structures in another part of the large acreage block under contract.

Petroperu, the only other company drilling in the Peruvian Amazon basin at this time, has made three discoveries of its own and has engaged the Bechtel Corporation of San Francisco to do the engineering preparatory to the construction of a trans-Andean pipeline. The pipeline will connect this vast Amazon region with the Pacific Coast and ultimately by tanker to international markets. In February, 1973, General Jorge Fernandez Maldonaldo, Peruvian minister of mines and energy, announced in Lima that Peru is setting plans to begin construction of this $255 million trans-Andean pipeline.

Your company and officials of Petroperu are holding discussions regarding the joint use of this pipeline, and it is expected that a mutually satisfactory agreement will be arrived at in the near future.

Lake Maracaibo, Venezuela

Exploration is continuing in south Lake Maracaibo, Venezuela, where Occidental holds three blocks totaling 375,000 acres under a service contract agreement with the Venezuelan national oil company, Corporacion Venezolana del Petroleo (CVP).

Drilling under way at company well in south Lake Maracaibo, Venezuela

Although there have been some oil shows, we have had disappointing results to date drilling in our three blocks. Two other companies have also been drilling in nearby blocks in an effort to locate a southerly extension of the prolific Maracaibo basin production; however, no significant quantities of petroleum have as yet been found. Some prospects remain to be explored in our license areas, and it is possible that there will be commercial accumulations of oil found in the south part of the lake.

Other Oil Areas

Negotiations are continuing with the Saudi Arabian government oil company, Petromin, for joint venture exploration areas in the Arabian desert, and we hope to be successful in obtaining concessions there soon. The Occidental group has made extensive seismic evaluations of prospective acreage in the Norwegian sector of the North Sea, and we expect to participate in the bidding there later this year.

In the United Arab Emirates (Trucial States), located along the coast of the Arabian Peninsula where Occidental holds certain offshore concession rights claimed by another operator, the matter still has not been resolved. Your company will seek an appropriate forum for the determination of the matter on its merits.

Activities in Libya

Occidental's oil production from Libya in 1972 totaled 154,918,522 barrels for an average of 424,434 barrels per day, down 27.7 per cent from our 1971 production of 586,400 barrels per day. During 1972, the average of all producers in Libya declined by approximately 20 per cent.

In June, 1972, our crude oil production was cut back to about 320,000 barrels per day upon orders from the Libyan government. This compared with an average production of approximately 550,000 barrels per day for the first five months of 1972. Production continued at about this same rate throughout the balance of the year; however, Occidental is fortunate in having been able to replace most of this loss of production from other sources at costs no higher than those of the company's own Libyan crude oil.

AGIP Pipeline Shipments Resumed

During the fourth quarter, shipments of oil by the Italian government oil company, AGIP, through Occidental's pipeline were resumed following AGIP's agreement with the Libyan national oil company. Both AGIP and Standard Oil Company of Indiana are currently transporting and shipping oil on a fee basis through our pipeline and Zueitina terminal facilities in quantities of about 130,000 barrels per day. This is adding an increasingly important source of revenue to our Libyan operations. We are also storing AGIP's gas production in our 103-D field, receiving a storage and injection fee. This gas will further augment our pressure maintenance program.

At the present curtailed production rate, these formations will soon be filled with gas which means that, unless our allowable rate of oil production is increased, future gas production would have to be flared. Discussions are being held with Libyan officials on this matter and, in order to maintain optimum gas conservation

practices, we would expect to be permitted a substantial production increase in 1973.

Gas Liquids Plant Goes on Stream

The company's new gas liquids plant in Libya began operations during 1972 producing naphtha, butane and propane from the natural gas produced in connection with our oil production. After extracting the liquids, the remaining dry gas is reinjected into the 103-D field to maintain reservoir pressure and increase the ultimate oil recovery from the field.

Our gas liquids products are currently being delivered to customers in southern Europe, North Africa, South America and Japan.

Sales of Low-Sulphur Fuel to Japan

A new market opened for our naphtha last year through a multimillion dollar, three-year contract to furnish sulphur-free naphtha for direct burning in electrical power plants in Japan in order to reduce air pollution.

In another major contract, approximately 21 million barrels of our low-sulphur Libyan crude oil was sold to Japan, also for direct burning by public utilities in that country.

Maps indicate locations of recent company crude oil discoveries in offshore Nigeria, the North Sea and Peru

Unitization Agreement in Effect

Under a unitization agreement approved by the Libyan government, our production operations on Concession 102 are being combined with those of Standard Oil Company of California and Texaco, Inc., from an adjoining concession. An extensive secondary recovery program is being installed which should substantially increase the ultimate recovery from our Concession 102 oil reserves.

Occidental's relationship with the government of Libya continues to be good. About 70 per cent of the employees of our wholly-owned subsidiary, Occidental of Libya, Inc., are Libyan nationals who hold positions throughout all departments of the organization including an Oxylibya vice president.

Concerning participation, we understand that negotiations are being conducted between the Libyan government and the Oasis group of oil companies on this subject, but that, up to this time, no agreement has been reached.

United States Oil and Gas Activities

During 1972, your company directly participated in the drilling of 82 new wells. Of these, 26 were exploratory resulting in three new field discoveries, and 56 were development wells resulting in 52 oil completions.

Los Angeles Basin

Development of our East Beverly Hills field, which has been carried on continuously since 1966, will be continued during 1973. At year end, 43 wells were on production and eight were active in a water-injection program to stimulate recovery. Gross production averaged 9,165 barrels of oil and 17,130,000 cubic feet of gas per day in 1972. Cumulative field production is now in excess of 21 million barrels of oil and 43 billion cubic feet of gas. Occidental holds a 65 per cent working interest in this production.

At our Sawtelle field, in which Occidental holds all of the working interest, daily production rates are 1,711 barrels of oil and 2,061,000 cubic feet of gas.

Louisiana Onshore and Offshore

Occidental's new 100 per cent-owned onshore North Simon Pass field went on stream in April, 1972, and is currently yielding approximately 15,500,000 cubic feet of gas and 1,850 barrels of oil daily. Production is from five dual wells completed in seven oil zones and three gas zones. Development drilling continues with about 50 per cent of our 1,342-acre block evaluated thus far.

At the West Potash field, where we hold a 31 per cent interest in a 3,100-acre land block, production began in March, 1972, and is currently averaging 3,670 barrels of oil and 3,978,000 cubic feet of gas per day from six dually completed wells and one triple completion. An important northerly stepout well is now being drilled. Oil and gas production at Ship Shoal Block 222, offshore Louisiana, is averaging approximately 3,900 barrels of oil and 93 million cubic feet of gas daily.

Occidental owns a 14.25 per cent interest in this tract where 15 wells produce from 11 oil zones and 18 gas zones.

First production from adjoining Ship Shoal Block 225, in which we own a 17.81 per cent interest, is expected to start this spring from platforms B and C which together accommodate 32 wells.

International Oil Marketing, Refining and Transportation Division

Abnormally depressed prices for refined petroleum products in Europe and a distressed tanker market during most of the year combined to make 1972 a loss year overall for your international oil marketing, refining and transportation division.

The division, however, posted a profit in the fourth quarter. By the end of 1972, petroleum product prices had made substantial gains with some products up as much as 50 per cent above their earlier lows. The tanker market also experienced a strong upturn.

Total sales of petroleum products in 1972 amounted to 52.9 million barrels compared with 80.3 million barrels sold in 1971. Gasoline sales have continued to increase, and particular emphasis is being placed on building strong, profitable retail marketing organizations in West Germany, Belgium, The Netherlands and the United Kingdom.

Canvey Island Refinery

Preliminary engineering studies have been completed on our proposed 120,000 barrels per day refinery to be built at Canvey Island in the Thames River estuary within the greater London area. Because of its strategic location, this refinery is expected to become a great future asset to our refining and marketing operations in the United Kingdom and Europe, particularly in light of our discovery of oil in the North Sea. Construction is due to begin late in 1973.

During 1972, the division moved from Paris to London where the majority of international oil companies maintain their offices for Middle Eastern and North African operations. Various other operating economies were made during the year for administrative efficiency.

Service Station Network Enlarged

Retail marketing in Europe is changing rapidly with modern super service stations replacing the typical neighborhood operations of the past. We are enlarging and upgrading our service station network in London and southeastern England and are proceeding with a program of converting existing service stations into self-service operations which have become increasingly popular in England and on the European continent.

Occidental's 100,000 barrels per day refinery at Antwerp, Belgium, was operating at full capacity at the end of 1972. A contract has been concluded with Texaco, Inc., for the processing of its crude through this refinery during 1973. The company's two refineries in West Germany, which are principally involved in bitumen (asphalt) production, had a successful year and are expected to operate at capacity for the 1973 bitumen season.

Crude oil distillation unit of Occidental's 100,000 barrels a day RBP refinery in Antwerp, Belgium, which supplies much of the product for company's growing marketing operations in countries of western Europe

Customer pays for his tankful of Oxy brand gasoline at drive-out cashier's window where operator also controls all forecourt pump units at this busy new Occidental self-service station in West Germany

Concerning the Company's Tanker Fleet

At year end, subsidiaries of your company owned or controlled approximately 2.1 million deadweight tons of shipping. These vessels are employed in transporting Occidental's crude and petroleum products as well as being chartered to third parties.

Despite the relatively low tanker rates during much of the past year, approximately $2.7 million was earned from charter operations, both as a result of contract negotiations accomplished over the past year and also from charters made to others at rates above the base at which the fleet is carried on our books.

At the close of 1972, approximately $36 million remained as a reserve for possible future fleet losses, all of which had been charged against 1971 operations. Assuming that tanker rates were to average at or near their present levels, the fleet could make a substantial contribution to profits in the current year.

Domestic Crude Oil Marketing Division

The Permian Corporation, Occidental's domestic crude oil marketing subsidiary, had another successful year in 1972. Gross income, net income and volume of crude oil handled all exceeded the comparative figures for 1971.

Although the availability of domestic crude oil in the area of Permian's operations continued to decline throughout 1972, Permian was nevertheless able to handle more crude than the year before. This was achieved by the acquisition of several small gathering systems and through extensions of Permian's existing

Surrounded by maze of pipes, technician opens valve at Permian's Midland, Texas, pump station to receive pipeline oil from leases in west Texas

gathering systems, construction of two new water terminals and by increased utilization of our truck and tank trailer fleet including service work such as hauling of fresh water, disposal water and brine.

Average Daily Volume Increases

In 1972, Permian handled an average daily volume of 471,000 barrels of crude oil compared with 452,000 barrels in 1971. At the end of the year, it had 4,882 miles of pipeline gathering systems with a daily throughput capacity of 699,800 barrels and storage facilities for 3,817,000 barrels. A new insulated pipeline system 23 miles in length, with a capacity of 12,000 barrels daily of low-gravity viscous type crude oil, was constructed in east Texas and placed into operation. New water terminals were constructed at Lake Hatch and Lake Hermitage in Louisiana.

Reflecting increases in prices of foreign crudes and other sources of energy, it is anticipated that the prices of domestic oil and gas will rise substantially. This should stimulate exploration and development drilling, thus increasing oil production in the areas in which Permian operates and adding to Permian's future revenues and profits.

Permian is currently taking an active part in the marketing of imported crude oil and other liquid hydrocarbons and recently was given the responsibility for administering the marketing of Occidental's foreign crude oil in the United States.

Minerals Division

Over the past year, our minerals division, Occidental Minerals Corporation (Oxymin), continued exploring for base and precious metals in the United States and Australia. Early in 1972, Oxymin concluded an agreement whereby its assets and active exploration program in Canada were purchased by Canadian Occidental Petroleum Ltd.

During June, 1972, Oxymin's important copper discovery near Miami, Arizona, was sold to American Metal Climax, Inc., which has taken over operation of the properties. The transaction involved cash payments sufficient to recoup exploration expenditures incurred since Oxymin initiated the project in 1968 plus a substantial retained carried interest in future profits and an option to acquire an additional interest in the project. Another Arizona copper deposit, discovered by Oxymin in 1969, was subsequently leased to another operator on a royalty basis. This mine has recently been placed on production using the latest leaching techniques.

Samples of ore from Oxymin discovery in Arizona are tested by laboratory research analyst using atomic absorption spectrophotometer to determine amount of copper and other elements found in samples

Tennessee Zinc Project

Oxymin continued the evaluation of its Tennessee zinc discovery and leased additional acreage in the area.

Discussions are being held with a major mining company relative to the development of this property under conditions patterned after the assignment of our Miami, Arizona, copper discovery.

Uranium exploration in the United States began last year through a joint exploration venture with two other mining companies. The venture involves more than 100,000 acres of leases and federal mining claims in the vicinity of Grants, New Mexico. In Australia, various base metals, nickel and gold target areas in New South Wales and western Australia will be explored during the coming year.

Coal Division

Despite the problems which confronted our wholly-owned subsidiary, Island Creek Coal Company, and the entire coal industry during the past year, 1972 was a turnaround year for this division.

Coal production and sales during 1972 amounted to 22.6 million tons and 24.6 million tons, respectively, slightly below the 22.9 million tons produced and 25.4

million tons sold during 1971. Profits, while below those of some earlier years, were higher than in 1971 and, through meaningful steps being taken by your management, we feel confident that earnings will continue to improve.

Price Improvements Achieved

Federal safety legislation has had an increasingly adverse effect on profits for the last two years. Due to resultant increased costs of production, Island Creek has recently negotiated major price improvements under several of its supply contracts with its utility customers. This will substantially improve the profit potential of the mines covered by these contracts.

Certain mines which were made uneconomic by federal safety legislation have been temporarily placed on a standby basis pending the expected improvement in market conditions.

Incentive Program Increasing Productivity

Our recently approved incentive program for supervisory mine personnel is beginning to have the desired effect of increasing productivity at our mines. Improvement in productivity is a key to a better profit performance, and your company's management is confident that this program will continue to be effective.

The coal market climate is expected to be much more favorable in 1973 when compared to the previous two years. Coal market demand dropped sharply to its cyclical low coinciding with the 1971 strike. While it has improved steadily since then, production also increased and inventories continued to build through mid-1972. Since then, demand began to overtake supply, and this is expected to continue through 1973 and beyond, assuming continued expansion of U.S. business activity, the increasing world steel output and the U.S. energy shortage which is causing many utilities to turn from oil and gas to coal.

Expansion of Coal Reserves

Island Creek has continued its efforts to expand its coal reserve position, particularly low-sulphur reserves located in the western United States. In 1972, Island Creek acquired approximately 119 million tons of such reserves in Wyoming in addition to the 200 million tons of low-sulphur reserves it holds in the vicinity of Price, Utah. At the end of 1972, coal reserves consisted of approximately 3.5 billion tons of steam and metallurgical coal. In addition, approximately one billion tons are contained in nearby deposits which our engineers believe can be more economically mined by Island Creek than by others. Our deposits include more than one half billion tons of our low-volatile Pocahontas metallurgical coal reserves in western Virginia. This coal commands premium prices on world markets, and much of Island Creek's output is being exported to Japan under long-term contracts.

Island Creek is in a highly favorable position to provide coal for the domestic and export markets and for the electric utility industry.

New Island Creek Coal Mines

Island Creek is continuing its expansion program, emphasizing the coals which move into the stronger market areas. In 1972, Island Creek completed the Pevler No. 1 mine in eastern Kentucky which produces a premium, low-sulphur steam product for sale to the electric utility industry. The Pevler No. 2 mine is already under development in the same area, and when both mines have been completed we will be in a favorable position to supply coal which will comply with the more stringent federal emission standards established by the Environmental Protection Agency.

Development work is continuing on Virginia Pocahontas No. 4 mine in western Virginia which will produce a premium, low-volatile metallurgical coal for the export market.

Mine Safety Stressed

Island Creek stresses mine safety continuously and, while even one accident is too many, we have built up an outstanding safety record. For example, in the year 1972, Island Creek averaged 15.43 lost time injuries per million man-hours of work compared to an industry average of 42.1 lost time injuries per million man-hours. This, we believe, is one of the best records of any major coal company today.

One example of mine safety happened in December, 1972, when an ignition occurred in one of the operating areas of our Virginia Pocahontas No. 3 mine. Thanks to good safety procedures and the fact that the Pocahontas mine has one of the most efficient ventilation systems of any coal mine, all personnel were evacuated from the mine without injury. The mine was then

View from control booth at Pond Fork mine in southern West Virginia where coal from loading chute flows into unit train cars as they pass slowly underneath

sealed off. Subsequently the fire extinguished itself, and it is expected that the mine will be reopened within the next month and operations resumed.

Chemical Division

1972 proved a very good year for each of the three divisions which comprise Occidental's chemical group —Hooker Chemicals and Plastics, Oxy Metal Finishing, and Agricultural Chemicals, Fertilizers and Sulphur. Sales of the combined chemical group, excluding Canada, were $808.6 million, 16 per cent above the previous year, while profits were considerably higher. These gains came about as a result of improved operations and increases in product volumes with prices holding steady and moving slightly higher later in the year. We expect that the current upward industry trend will continue.

Your company is a leading factor in many areas of the chemical industry and, at its present level of operations, our chemical group would by itself constitute the tenth largest domestic chemical company. At present, we are advancing on a number of projects for expanding production in areas where we have established market positions and which appear to offer the most favorable profit potentials. Hooker is now the third largest producer of chlorine in North America and one of the world's leading producers of sodium chlorate, and several new projects involve these products.

Hooker Chemicals and Plastics Division

The chemicals and plastics group made a strong comeback during the past year. Sales were increased 14 per cent while profits were up several times this percentage. Improved performances were recorded in all areas, particularly the Durez, Ruco and international divisions. Assuming the continuation of a strong economy, sales and profits are expected to improve during the current year.

Industrial Chemicals Activities

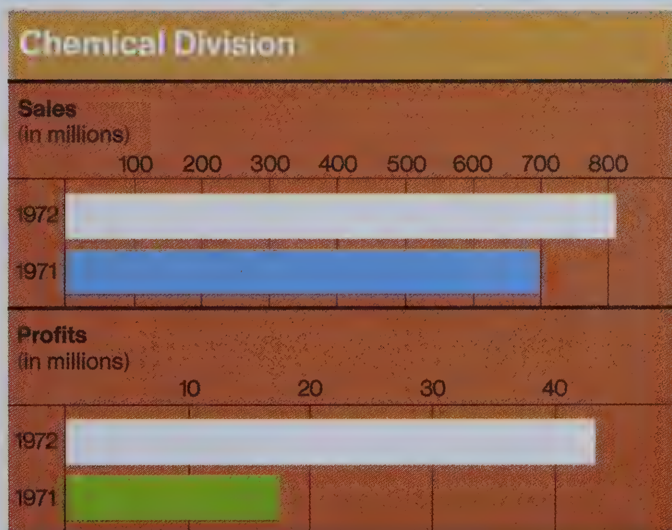
While increasing sales and profits over last year, the industrial chemical segment of the division devoted a great effort to plant modernization and expansion of basic facilities. Some of the highlights are:

Construction of a new facility at Taft, Louisiana, to produce 900 tons of chlorine and 963 tons of caustic soda per day is scheduled to begin in 1973 with completion programmed for the last quarter of 1974. The first phase of Hooker's new 45,000 tons per year sodium chlorate plant at the Taft chemical complex is scheduled for completion in 1973.

At Hooker's main chemical complex in Niagara Falls, construction is on schedule for a new multi-purpose facility capable of producing a wide variety of chemical materials, with completion scheduled for the second quarter of 1973. Also at Niagara Falls, our modernization and expansion program has made this the largest and most efficient chlor-alkali plant in the northeast.

Freshly mined coal flows from stacking tube to stockpile for continuous loading at Island Creek Coal division's Providence No. 1 mine in western Kentucky

Chemical processing facility at N.V. Hooker Chemical S.A. plant in Genk, Belgium, is aglow as dusk falls. Below, chart points out sharp increases in chemical division's 1972 sales and profits (excluding Canada) over previous year's results



Conversion of Plant Completed

The conversion of the chlorine-caustic soda plant in Montague, Michigan, to dimensionally stable anodes (DSA) was completed making it the first diaphragm cell plant to be operated entirely with these efficient new anodes. This conversion has proved very successful, resulting in an increase of production capacity with reduced power cost and a greatly extended cell life. A significant new market is developing for these anodes.

Recent Hooker contracts to furnish chlorine-caustic cell technology include a new diaphragm type chlor-alkali plant in Brazil described as one of the largest in the world; a contract between Hooker and Georgia-Pacific for a very large chlorine-caustic plant in Louisiana, and five contracts for the modernization and, in some cases, the expansion of Hooker chlorine cell installations in the United States.

Drums of plastic resins await shipment at Canadian Occidental Petroleum Ltd. plant in Fort Erie, Ontario, Canada which produces Durez products for sale to manufacturers and distributors throughout Canada

Durez Gains, Ruco Improves

Sales by the Durez division increased 13 per cent over 1971, and profits nearly doubled. These improved operating results were partly due to the strong domestic economy; however, much credit should be given to Durez programs of increasing productivity and yields and developing new uses for its regular product lines.

Since its reorganization in 1972, the Ruco coated fabrics division has made a marked recovery from the substantial losses it posted in 1971, and we expect Ruco to show a further improvement in 1973.

International Sales and Profits Rise

All operations of Hooker's international division showed substantial increases in sales and profits over 1971. We expect this trend to continue.

Process technicians at polymer synthesis facility operated by Hooker Chemical Corporation's central research department in Grand Island, New York, inspecting plant scale-up equipment used in research project on high impact polyvinyl chlorides

Our Brazilian plastics company, Vulcan, expanded its capacity for calendered vinyl and other goods by 50 per cent during the year. These products are for furniture upholstery, wall coverings and the automotive industry. A Far East branch office was established in Tokyo and an agreement was signed with Hodogaya Chemical Company giving Hodogaya rights to license Hooker's single vessel process (SVP) for manufacturing chlorine dioxide in Japan.

Oxy Metal Finishing Division

For the year 1972, Oxy Metal Finishing Corporation (OMF) reported a sales increase of 27 per cent compared to 1971, with a profit increase more than double this rate.

Sales of automatic metal processing equipment showed a decided improvement over 1971 levels. The growing use of pre-coated metals in the fabrication of steel office furniture, aluminum siding and many other products resulted in increased sales of OMF's paint-base conversion systems for coil coating. Gains in market penetration were recorded in the electronics industry, reflecting increased sales of OMF's proprietary precious metal compounds and production equipment for miniaturized components.

Environmental Services Group Established

The Environmental Services Group of OMF was formally established in 1972 for the purpose of integrating the waste treatment activities of its several divisions. With unique expertise in pollution control techniques required by the metal-finishing industry,

OMF personnel are currently conducting seminars across the country under the auspices of the federal Environmental Protection Agency.

Additionally, this group offers a complete range of services from consultation through turn-key waste treatment installations to companies which utilize metal-finishing. Sales in this area are expected to grow in direct proportion to the intensity of enforcement by federal, state and municipal agencies of existing anti-pollution regulations.

New Products Introduced

Among new products introduced by OMF in 1972 was a unique nickel alloy plating process (Niron) which promises significant savings for appliance and automotive manufacturers. A chromate-free post treatment process (Parcolene 85) for steel was approved for use in the paint lines of all three of the major automobile manufacturers. A new single-step reactive lubricant (Reactobond), used in cold-forming operations, received quick acceptance in several areas of the metal-working industry.

An innovative materials handling and metal-processing system designed for the aluminum can industry by OMF has out-performed standard equipment and techniques under actual production conditions. OMF expects this high-volume automated system to find substantial markets in the expanding metal can industry and is currently developing high-speed cleaning and conversion coating systems for the processing of drawn steel cans on similar equipment.

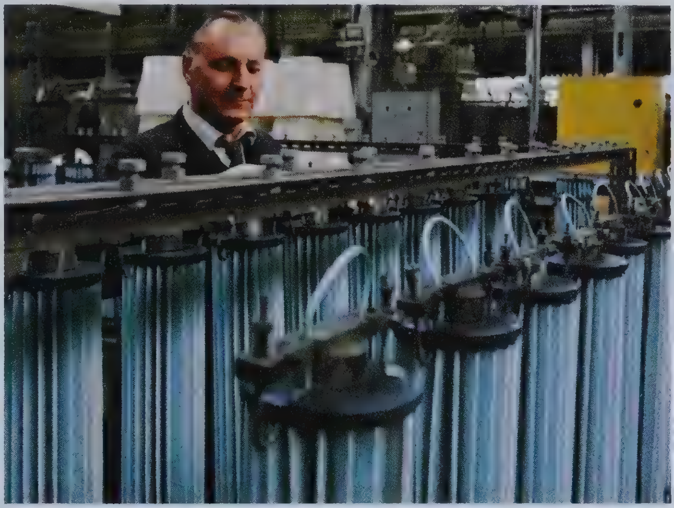
A new line of metal-finishing chemical specialties for the surface conditioning of metals and plastics in electroplating operations has recently been developed through the combined research of the Parker, Udylite and Sel-Rex divisions. These new products, which were introduced during the first quarter of 1973, replace products of other manufacturers previously distributed as resale items which had yielded low profit margins.

Liquid gold pours from melting furnace into molds at precious metal recovery division of Sel-Rex facility located in Nutley, New Jersey, where tons of gold and other valuable metals are recovered from industrial scrap and reused at a profit

OMF International Operations

Improved business conditions in the international marketplace began to materialize during the second half of 1972. In spite of this relatively slow start, significantly improved world economic conditions during the closing months of the year enabled OMF's international division (OMFI) to post sales 25 per cent greater than 1971 with profits more than triple the level recorded in 1971.

The sales gain indicates success in making further market penetration with Udylite, Sel-Rex, Parker and associated metal-finishing products largely through broadened global representation by new companies added to the division's operating units.



Industrial filters are assembled at Oxy Metal Finishing (Great Britain) Limited for use in metal finishing plants

New Subsidiaries Formed

In western Europe, two new OMF subsidiaries, Oxy Metal Finishing (Sweden) A.B. and Oxy Metal Finishing (Danmark) A/S, now serve the markets of Scandinavia with OMF products and technology. Also, Oxy Fluid Control GmbH was established in Frankfurt to assist our German distributors.

Through the purchase of assets and technology from the Wibral organization in France, a new process, mechanical finishing, was added to our world product line. Wibral specializes in the field of deburring and polishing delicate small parts by vibratory methods.

With these 1972 additions, our international metal-finishing division is now capably represented through wholly-owned companies, affiliated companies, distributors or licensees throughout the industrial world.

First Contract Signed with U.S.S.R.

Oxy Metal Finishing International was the initial beneficiary of your company's high-level contacts and meetings in Russia. The first formal contract to be signed as a result of these continuing meetings involves the sale of metal-finishing equipment, processes and products to the Soviet Union and the purchase of nickel in return.

On the basis of present market prices, the sale of the metal-finishing equipment will amount to some $40 million over a five-year period and the purchase of nickel, of which Oxy Metal Finishing is a large user, will also amount to approximately $40 million. Additional sales of some $30 million outside the agreement are expected by OMFI during the same period. Oxy Metal Finishing (Intra) S.A. in Geneva has been organized to act as the vehicle through which this two-way metal-finishing business is transacted.

New Battery System Developed

During 1972, it was announced that your company's research department in Detroit, Michigan, had developed and patented a revolutionary new high-energy, lightweight rechargeable zinc chloride battery system with a wide range of potential applications including automotive power, emergency power storage for hospitals, computer installations and bulk energy storage.

Our test vehicle, which is a popular small U.S. automobile converted to accommodate this new battery system, has operated with a prototype of this battery for the past several months making sustained test runs of 150 miles without recharging and attaining speeds of 60 miles per hour. Progress is also being made towards the development of standby power installations.

Agricultural Chemicals, Fertilizers and Sulphur Division

1972 marks the third successive year in which Oxychem, our agricultural chemicals, fertilizers and sulphur division, registered substantial increases in sales and profits with each profit center in the division contributing. Sales were up 16 per cent and profits more than doubled over 1971 due mainly to increased demand for all fertilizers and phosphate rock, higher profit margins on fertilizer products and cost reduction efforts. Further improvements are expected in 1973.

To maintain our domestic position and to serve expanding markets abroad, phosphate rock production at our Suwannee River mine in northern Florida is being expanded by one-third to about 3.4 million tons annually. Completion is expected late in 1973 at which time our new $3.5 million, 45 cubic yard dragline, 50 per cent larger than our two existing machines, will begin operations. Plans are under way for the expansion of our Florida chemicals complex to increase production of high-analysis fertilizers and Occidental's concentrated superphosphoric acid (SPA).

Sales of Animal Feed Supplements Increase

Animal feed supplement operations reflected moderately increased sales and greater operational efficiencies in 1972, although sales prices remained substantially at 1971 levels.

The increased availability of fertilizer products for sale into world markets resulted in substantial improvements in sales and profits of Interore, our international fertilizer and commodity marketing division. Our British-based company, Leather's Chemical Company Limited, continued to increase its earnings contribution and a further increase in sales and profits will be realized when the new 650 tons per day sulphuric acid plant at Trafford Park, Manchester, England, goes on stream in mid-1973.

Jefferson Lake Sulphur Profits Improve

As a consequence of closing down an uneconomical Louisiana operation last year, sales volumes of Oxychem's sulphur-producing division, Jefferson Lake Sulphur Company, were lower than in 1971; however, earnings increased substantially.

Sulphur prices remained weak, although some minor price increases were announced late in the year. The bulk of Jefferson Lake's sulphur production is utilized by Oxychem in the manufacture of fertilizers, and this percentage will increase with the expansion of phosphate production in Florida.

Gypsum being loaded into truck at Oxychem's Best Fertilizers plant in Lathrop, California, for shipment and sale to farmers who use it as a soil conditioner and source of sulphur to improve quality of crops

Canadian Occidental Petroleum Ltd.

Your company's 82 per cent-owned subsidiary, Canadian Occidental Petroleum Ltd., recorded net income for the year ended December 31, 1972, of $5,310,000 or 79 cents per share, an increase of 61 per cent over the $3,290,000 or 55 cents per share earned in 1971. Net cash flow from operations amounted to $9.7 million versus $8.2 million of cash flow in 1971. Revenues were also higher—$28.5 million compared with $26.7 million in 1971. All of the above are stated in Canadian funds.

1972 was the first full year of operations for Canadian Occidental which was formed in 1971 by the consolidation of Jefferson Lake Petrochemicals of Canada Ltd. with Occidental's Canadian chemical, oil and gas operations. The improved sales and earnings stemmed partly from benefits derived from this reorganization and also from increased revenues from sales of oil, natural gas and chemicals.

High pressure water jets break up phosphate ore as it is dumped from 50-ton dragline bucket during mining operation at Suwannee River complex in Florida. Phosphate ore is used in the manufacture of fertilizers

Offshore Louisiana Participation

Of major significance during the year was the purchase by a Canadian Occidental wholly-owned subsidiary of a 20 per cent interest in a 2,648-acre lease block (Tract 78) offshore Louisiana in the U.S. federal offshore lease sale held in September, 1972. The company's share of the cash bonus paid was approximately $3 million. The first exploratory well on this tract was started by the operator, a major U.S. oil company, in November of 1972. Early in December, there was a gas blowout and a fire on this location with the loss of the drilling rig; however, the fire soon extinguished itself and there was no significant loss to the company. A second well was begun in January, 1973, on this location which will be followed by at least one more exploratory test to evaluate the acreage.

Raw natural gas is processed through this tall Canadian Occidental Petroleum Ltd. desulphurization unit in Calgary, Alberta, Canada where it is converted into specification pipeline gas and other products

In 1972, Canadian Occidental participated directly in 16 exploratory tests in the Western Sedimentary Basin of Canada which resulted in three natural gas discoveries and one oil discovery. The latter, in which the company holds a one-fourth interest, was completed in February, 1973, in the Snipe Lake area of northern Alberta, testing approximately 250 barrels per day of high-gravity oil. Plans are being completed for further drilling in the area. In addition, 22 exploratory wells, which were drilled by other companies under option agreements and farmouts, which evaluated Canadian Occidental lands, resulted in four gas wells.

Gas, Oil and Natural Gas Liquids Sold

Canadian Occidental sold approximately 52 million cubic feet per day of natural gas and 841,000 barrels of crude oil and natural gas liquids during 1972 compared with about 53 million cubic feet per day of gas and 693,000 barrels sold in 1971. Net sulphur production from its interests in various plants in western Canada was approximately 237,000 long tons, and sales were approximately 176,000 long tons compared with production and sales in 1971 of 257,000 tons and 187,000 tons, respectively.

Indications of a firming trend in the sulphur market were observed late last year, and, as a result, higher prices were obtained for sulphur delivered to customers early in 1973.

Expansion of the company's chlor-alkali facilities at its North Vancouver plant was completed in December, 1972, increasing chlorine production capacity from 330 to 395 tons per day and caustic soda from 363 to 434 tons per day.

Agreement with the U.S.S.R.

In July, 1972, your company's management signed a five-year scientific and technical cooperation agreement between the State Committee for Science and Technology of the Council of Ministers of the U.S.S.R. and Occidental. The agreement covers five areas: exploration, production and usage of oil and gas, agricultural fertilizers and chemicals, metal treating and metal plating, the design and building of hotels, and utilization of solid wastes.

Since that time, Occidental has signed the previously described $80 million agreement covering the sale of metal-finishing equipment to Russia and the purchase of nickel by the company.

Fertilizer Pact under Negotiation

Occidental is also negotiating a fertilizer transaction involving initially the sale to the Soviet Union of up to one million tons a year of concentrated phosphate fertilizer (P_2O_5) in the form of superphosphoric acid (SPA) over a period of 20 years. Occidental would purchase ammonia and urea of an equal value over the same period of time. This transaction would involve the production of SPA from Occidental's Florida phosphate ore reserves utilizing our patented high-analysis SPA process. The ammonia and urea received in exchange for our SPA would be handled through our worldwide fertilizer marketing organization, Interore.

This proposal contemplates that a joint venture consisting of the Bechtel Corporation of San Francisco and our wholly-owned subsidiary, Garrett Research and Development Company, Inc., would supply the technology and arrange for construction of ammonia and urea plants in the Soviet Union.

Agreement with El Paso Natural Gas Company

Occidental has signed an agreement with El Paso Natural Gas Company to jointly explore the possibilities of exporting liquefied natural gas (LNG) from eastern Siberia to the west coast of the United States and to

Dr. Armand Hammer, Occidental's chairman, escorts engineers from Russian natural gas industry down steps of company's executive jet aircraft during their trip to Los Angeles to confer with Occidental officials

Japan. A detailed proposal involving the immense potential reserves of natural gas in Siberia's Yakutsk region has been presented to the U.S.S.R. The project is under active consideration by Soviet authorities and would also be subject to the U.S. energy policy.

Your company and the Bechtel-Garrett joint venture are negotiating for the construction of an international trade center and hotel in Moscow and a letter of intent has been signed in connection with the proposed project.

Trips Made to Soviet Union

Members of your company's management teams, together with officials of Bechtel and El Paso Natural Gas Company, have made several visits to the Soviet Union since last July to bring negotiations forward on these and other major commercial arrangements. Occidental has the distinction of being the second U.S. industrial company to receive Soviet government authorization to open an office in Moscow. This office is now staffed and operating in the National Hotel building adjacent to Red Square.

In the few months since the historic arrangements announced last July, your chairman has had the privilege of discussing Occidental's involvement in East-West trade directly and personally with the Soviet government's top leaders.

Research and Development Division

Again this past year, the major thrust of Occidental's corporate research division, Garrett Research and Development Company, Inc., was focused on synthetic fuels. The fuel shortage this winter has brought home dramatically the need for practical processes to convert the enormous U.S. reserves of coal and oil shale into oil and gas. Garrett's work in these areas continues to show good progress, and we feel that the company has achieved an enviable technical position in synthetic fuels research.

Garrett's basic premise is that any viable coal conversion process must have reasonably low capital and operating costs so that the cost of converting the coal into oil and gas can be paid for by the increased product values obtained, with a reasonable return on investment. The Garrett coal liquefaction and gasification processes are intended to fulfill this concept and also to purify the char (coke), oil and gas so that they will be essentially free from sulphur and thus very clean fuels. Both Garrett processes have been successfully tested in pilot plant programs, and we believe they will soon be ready for demonstration plant operations.

Oil Shale Recovery Process

Garrett's patented oil shale recovery process which involves the fracturing and combustion of shale underground is being field tested with encouraging results and should also be ready to test in a demonstration plant operation soon. This process appears to offer yet another commercially attractive means of increasing the country's available sources of energy.

The Garrett process for solid waste disposal and materials recycling has been further developed during the year, and a large pilot plant program is under way on tree bark, feedlot waste and rice hulls.

San Diego County Approves New Plant

Construction of a 200 tons per day plant using municipal refuse (garbage and trash) has been approved by the board of supervisors of the County of San Diego, California. Garrett will supply the engineering and consulting services for construction of the new facility.

The plant will utilize the Garrett process which converts solid waste into marketable products including synthetic fuel oil, glass, metals and char. The synthetic fuel oil produced by the plant will be purchased by San Diego Gas and Electric Company. This $4 million project will be supported by a federal Environmental Protection Agency grant which will be released when the site for the plant in San Diego County is approved.

This work continues to look exceedingly promising for the disposal of solid waste and the recovery of most of its values as oil, glass and metals.

Research programs in the minerals field include a novel hydrometallurgical process for the production of antimony oxide of high purity and controlled particle size from an ore of any grade.

Garrett's Technology Aids Oxychem

A new acid purification process and other production technology developed by Garrett Research will be utilized in Oxychem's new superphosphoric acid production facility in Florida which would be the prototype of the unit contemplated under our proposed Russian fertilizer trade agreement.

At our Searles Lake, California, brine chemical project, plant construction has been temporarily delayed pending acceptance by the U.S. Department of the Interior of a long-range program covering, among other things, rates and quantities of brine extraction from the lake. In the meantime, we are proceeding with the initial stages of production of saline chemicals in our Searles Lake solar evaporation ponds.

International Hotel Division

The Occidental-Holiday Inns joint venture's deluxe (Four Star) Holiday Inn in Monte Carlo opened its doors in May, 1972, to host the presentation for the Grand Prix de Monaco auto race. This beautiful 320-room facility was the first Holiday Inn resort hotel in Europe. This is the only hotel in Monte Carlo with a private beach, and it commands a magnificent view of the principality. Occidental and Holiday Inns are equal partners in this hotel.

In Switzerland, the Holiday Inn at the Zurich airport is scheduled to accept its first guest in April, 1973. This joint venture with the Swiss restaurant chain, Moevenpick, will have 338 rooms and a Moevenpick restaurant. Some 13 miles away in Regensdorf, a smaller 153-room Holiday Inn will open in October. Occidental owns a 50 per cent interest in the Zurich hotel and a 30 per cent interest in Regensdorf.

New Hotel Planned for Nigeria

In Nigeria, planning is under way to construct a 500-room hotel under a joint venture with the Lagos state government. This deluxe facility, in which Occidental will own a 50 per cent interest, will overlook the Atlantic Ocean from Victoria Island in Lagos. Completion is expected in 1975.

In Morocco, the contractual dispute between the Moroccan government and the Occidental-Holiday Inns joint venture is still in international arbitration.

Real Estate Division

Your company's real estate division concluded the fourth quarter of 1972 with a significant increase in land sales and an improvement in operating results. Pre-tax loss of the division for 1972 was $1.6 million compared with a pre-tax loss for 1971 of $6.9 million for an improvement between years of $5.3 million. The division showed a profit in the fourth quarter. It has projected sales of over $22 million in 1973 compared to sales of $12.3 million in 1972 and expects to make a profit.

Engineers check flow of oil derived from solid waste in recently enlarged pyrolysis pilot plant at Occidental's Garrett research and development division headquarters in La Verne, California

A general "belt tightening" policy for the division, effected during the past year, has reduced personnel and operating costs by about 50 per cent. These reductions, primarily during the last part of 1972, were accomplished through realignment of responsibilities and by eliminating certain unprofitable operations.

Ranch Lands to Hold More Cattle

We are also working to improve the quality of our ranch land holdings and increase their capacity to carry cattle. All of the ranches are being leased to cattle companies in 1973.

Our sales of land for planned community developments are showing a significant return. There is a strong demand developing for this type of housing in Southern California, and for that reason we are exerting more effort toward these developments.

Financial Review

Your company's financial statement highlights for 1972 are summarized below on a comparative basis with 1971.

	1972	1971
	(Amounts in millions)	
Net sales and other revenues	$2,720.8	$2,635.2
Earnings (loss)	10.4	(67.0)
Operating cash flow	120.3*	150.6
Total assets	2,562.0	2,580.0
Shareholders' equity	830.6	839.4
Cash dividends paid	26.2	74.2

*After payment of $29.3 million charged to emergency tanker fleet reserves established in 1971.

In 1972, Occidental's net revenues increased $85.6 million over 1971. The $10.4 million profit in 1972 represents a turnaround from the $67 million loss in 1971, which was largely the result of an $87.9 million loss from emergency fleet operations.

Before extraordinary items, net operating earnings were $19.7 million in 1972. The net extraordinary items of $9.3 million consisted of net currency exchange losses, most of which were additional taxes due the Libyan government as a result of the 1971 U.S. currency devaluation, and payable solely out of future production from Libya. Cash dividends include a $19.2 million payment relating to preferred stock and a $7 million payment relating to common stock.

Cash Flow and Financing

Occidental's cash flow from operations in 1972 totaled $149.6 million, about the same as in 1971, before payments of $29.3 million charged to tanker fleet reserves. New financings arranged during the year included $85 million of additional domestic revolving credits, $81 million of Eurodollar term and revolving credits and $8.2 million of production payments. The new credits were partially used during the year, but a substantial amount remained available for future use.

At year end, Occidental's cash balance was $182.4 million in addition to $72 million in unused committed long-term bank credit lines. Thus, the company closed the year with cash and unused credit in excess of $250 million. Other open bank lines were also available for short-term working capital needs of the company. As previously stated, working capital at the conclusion of 1972 was $253 million, an increase of $15 million from the year before.

Assets and Shareholders' Equity

Occidental's assets totaled approximately $2.6 billion at the end of 1972 and shareholders' equity was $830.6 million. Capital expenditures were $181.5 million during the year, closing the year with property, plant and equipment having a book value, after accumulated depreciation, of $1.4 billion.

Following is a summary of capital expenditures categorized by the major operating divisions:

	1972	1971
	(Amounts in millions)	
Oil and gas operations:		
International production and exploration	$ 61	$ 65
International marketing, refining and transportation	8	16
North America	23	24
	$ 92	$105
Chemical operations	50	49
Coal operations	39	61
Other operations	1	2
	$182	$217

Corporate and Divisional Staff Matters

A number of executive changes and reassignments have been made during the past year which have strengthened and brought greater depth to your company's corporate and divisional organizations.

The office of chairman of the board and chief executive officer is functioning efficiently under the reorganization announced in our report of last year. Responsibilities of the office are shared by Robert J. Caverly, executive vice president for operations, and W. Marvin Watson, executive vice president for corporate affairs, each of whom serves as an executive assistant to the chairman.

New Team of Executives

Your company has assembled an outstanding new team of financial executives. Donald M. Morgan has been elected to the position of vice president-finance and chief financial officer. Immediately prior to joining Occidental, Mr. Morgan was vice president-finance of the international engineering and construction firm, Fluor Corporation. His career extends over a 30-year span of experience in the petroleum and natural resource industries.

During September, John J. Dorgan was elected to the position of vice president and treasurer. Mr. Dorgan joined Occidental's international oil marketing, refining and transportation division in 1972 as executive managing director for Holland and Belgium, following 23 years of service with Continental Oil Company in various capacities including several years as treasurer.

Ronald B. Casriel has been elected to the office of corporate controller. He joined Occidental in 1972 as assistant controller after 16 years with the national public accounting firm of Ernst & Ernst.

George J. Phocas has been elected an executive vice president with responsibilities which include international negotiations. Mr. Phocas was formerly senior partner in the London office of the international law firm of Casey, Lane and Mittendorf where he served as counsel to a number of leading U.S. and foreign companies. His previous experience includes several years with Standard Oil Company of New Jersey (Exxon) as an international negotiator and as legal counsel to its subsidiary, Creole Petroleum Corporation.

Former Senator Joins Occidental

Albert Gore, former U.S. senator from Tennessee, was elected a company director in September and at the same time assumed the full-time position of chairman of the board and chairman of the executive committee of Island Creek Coal Company. Previously, Senator Gore had served as legal counsel to the coal division in connection with contract renegotiations. Subsequently, James L. Hamilton, former board chairman of Island Creek who had been called back into service last year, has returned to retirement.

Operations of our coal division remain in the capable hands of Island Creek's president, Stonie Barker, Jr., a veteran of more than 20 years with the company. Assisting Mr. Barker as executive vice president for operations is R. L. Dulaney who joined Island Creek last year. Mr. Dulaney was formerly president of the Mountaineer Coal Company division of Consolidation Coal Company.

New Head of Chemical Division

Francis W. Theis has been appointed president and chief executive officer of your company's chemical division including Hooker, OMF and Oxychem. Mr. Theis brings to Occidental more than 30 years of executive experience in various segments of the chemical industry, having served as president of Pittsburgh Plate Glass International and also as group vice president for chemical operations of Celanese Corporation. Immediately prior to joining Occidental, Mr. Theis was an executive vice president of International Paper Company.

Mr. Theis heads up an experienced group of chemical division executives including William D. Morrison, president of Hooker chemicals and plastics; Dale E. Moon, chairman and chief executive officer of Oxy Metal Finishing; David A. Bloomfield, vice president and general manager of the Ruco division; A. P. Gates, executive vice president for agricultural chemicals, fertilizers and sulphur, and Rene J. Rochat, president of Oxy Metal Finishing International.

Division's Staff Augmented

Our international oil marketing, refining and transportation division is headed by company executive vice president George M. Williamson, whose staff was augmented last year with the appointment of Robert G. Jones as an executive vice president of Occidental International Oil, Inc. His responsibilities encompass the coordination of our European marketing, refining and supply operations including retail networks in Belgium, The Netherlands, Germany and the United Kingdom. Mr. Jones came to Occidental from Arthur D. Little Inc. where he was manager of its energy division and, before that, was a senior group executive for Caltex (Standard Oil Company of California and Texaco, Inc.).

David B. Orser, formerly senior vice president of Oxylibya, has been appointed executive vice president-finance for the division. Prior to joining Oxylibya in 1968, Mr. Orser was on the financial staff of Mobil Oil Company's Libyan operations.

Executives Continue to Serve

Other executives continuing in their same positions are Occidental executive vice president and head of The Permian Corporation, Thomas D. Jenkins; Donald E. Garrett, executive vice president for research and development; Paul A. Bailly, president of Occidental Minerals Corporation; Tim M. Babcock, executive vice president of Occidental International Corporation, who shares the direction of Occidental's organization in Washington, D.C., with vice president William F. McSweeny, and in the corporate offices, Ronald P. Klein, vice president and general counsel, and Paul C. Hebner, vice president and secretary.

Management of our oil and gas exploration and production division continues unchanged, consisting of Robert A. Teitsworth, executive vice president and division manager, and vice presidents Richard H. Vaughan, manager of exploration, and Charles C. Horace, manager of drilling and production, who have all been with Occidental the past 13 years.

Following 15 years of distinguished service on Occidental's board, Charles K. Schwartz retired as a company director in May, 1972. He has been appointed as Occidental's first director-emeritus.

Quarterly Management Review Meetings

Each quarter, some 50 of our top management executives, including the key officials of our divisions and subsidiaries worldwide, meet together to report on current affairs in their respective divisions along with problems and plans for the future. Of major benefit are the opportunities these meetings offer for the cross-fertilization of ideas—methods which work well in one division may also work well in an unrelated division.

More efficient utilization of corporate facilities and new ideas for ways of dealing with division and corporate matters are examined. Significantly, all members of the board of directors attend these two-day meetings, giving your directors and corporate management the opportunity to discuss matters firsthand with the executives throughout the company's organizations who are directly involved in the creation of sales and profits.

Conclusion

Looking back over the events of the past year, we believe that 1972 will be recorded as one of the most significant years of your company's 52-year history. Many problems faced Occidental at the close of 1971. We had just reported the loss of $67 million for that year. Tanker markets were in a depressed state. Prices of petroleum products in the areas where we market were weak as were those of chemicals, plastics and coal.

On the positive side, as a result of profitable operations in the past, we were able to report to our shareholders that their company was in strong financial condition, able to carry out its exploratory programs on its four international oil prospects, and that we felt confident at least some of our efforts would result in the discovery of new sources of crude oil which we vitally needed. The results, as described in this report, have exceeded our expectations.

Continuing Growth Anticipated

Throughout this report, we have emphasized the growing global demand for energy and its implications for Occidental in terms of the values of our reserves of oil, gas and coal.

With the fine talent and dedication of our experienced executives and staffs throughout the entire Occidental family, your management is confident that the outstanding 13-year record of increasing sales and earnings which began in 1957 and continued without a break through 1970 has suffered only a temporary interruption. We look forward to continuation of growth reflected in increased sales, earnings and shareholders' equities and, when conditions permit, to the resumption of dividends on our common shares.

By order of the board of directors,

Armand Hammer

Armand Hammer
Chairman of the Board

March 20, 1973

Board of Directors

Dr. Armand Hammer
Chairman of the Board, President and Chief Executive Officer

Robert J. Caverly
Executive Vice President for Operations
Executive Assistant to the Chairman of the Board

Albert Gore
Chairman of the Board, Island Creek Coal Company

Arthur Groman
Senior Partner of Mitchell, Silberberg & Knupp, Los Angeles

James L. Hamilton
Retired, formerly Chairman of the Board
Island Creek Coal Company

Paul C. Hebner
Vice President and Secretary

Neil H. Jacoby
Professor, formerly Dean, Graduate School of Management
University of California at Los Angeles

Herman L. Vail
Senior Partner of Sayre, Vail, Steele & Renkert, Cleveland

W. Marvin Watson
Executive Vice President for Corporate Affairs
Executive Assistant to the Chairman of the Board
President, Occidental International Corporation

Officers

Dr. Armand Hammer
Chairman of the Board, President and Chief Executive Officer

W. Marvin Watson
Executive Vice President for Corporate Affairs
Executive Assistant to the Chairman of the Board

Robert J. Caverly
Executive Vice President for Operations
Executive Assistant to the Chairman of the Board

George M. Williamson
Executive Vice President
General Manager, International Oil Marketing,
Refining and Transportation Division

George J. Phocas
Executive Vice President for International Negotiations

A. P. Gates
Executive Vice President for
Agricultural Chemicals, Fertilizers and Sulphur

Donald E. Garrett
Executive Vice President for Research and Development

Stonie Barker, Jr.
Executive Vice President; President, Coal Division

Thomas D. Jenkins
Executive Vice President
President, Domestic Crude Oil Marketing Division

Robert A. Teitsworth
Executive Vice President
Manager, Oil and Gas Exploration and Production Division

Charles C. Horace
Vice President, Manager of Drilling and Production

Richard H. Vaughan
Vice President, Worldwide Exploration

Ronald P. Klein
Vice President and General Counsel

Paul C. Hebner
Vice President and Secretary

Donald M. Morgan
Vice President—Finance

John J. Dorgan
Vice President and Treasurer

Ronald B. Casriel
Controller

Executive Staff

Tim M. Babcock
Executive Vice President, Occidental International Corporation

Paul A. Bailly
President, Occidental Minerals Corporation

Carl W. Blumay
Director of Public Relations

David B. Chalmers
President, Canadian Occidental Petroleum Ltd.

Francis W. Theis
President and Chief Executive Officer, Chemical Division

Dale E. Moon
Chairman and Chief Executive Officer
Oxy Metal Finishing Corporation

James L. Clifford
President, Oxy Metal Finishing Division

William D. Morrison
President, Hooker Chemicals and Plastics Division

Occidental Petroleum Corporation Board of Directors, left to right: W. Marvin Watson*, Paul C. Hebner*, Neil H. Jacoby*, Dr. Armand Hammer*, Herman L. Vail, Arthur Groman*, Albert Gore, Robert J. Caverly. Not shown, James L. Hamilton

*Members of the Executive Committee

Consolidated Statements of Operations

For the years ended December 31, 1972 and 1971

	1972	1971
	(Amounts in thousands)	
REVENUES:		
Net sales and other revenues	**$2,720,847**	$2,635,208
Interest, dividends, etc. (Note 2)	**22,430**	28,218
	2,743,277	2,663,426
COSTS AND OTHER DEDUCTIONS:		
Cost of sales	**2,204,809**	2,035,311
Selling, general and administrative and other operating expenses	**185,050**	182,927
Provision for domestic and foreign income, franchise and other taxes (Note 10)	**261,223**	337,257
Interest and debt expense	**73,624**	67,059
Minority interest in income of subsidiaries	**1,558**	959
	2,726,264	2,623,513
Income before gains (losses) from emergency fleet position	**17,013**	39,913
GAINS (LOSSES) FROM EMERGENCY FLEET POSITION (Note 6)	**2,662**	(87,931)
Income (loss) before extraordinary items	**19,675**	(48,018)
EXTRAORDINARY ITEMS (Note 12):		
Foreign exchange losses, net	**(10,194)**	(10,511)
Other gains (losses), net, principally on property, plant and equipment	**938**	(8,473)
Net income (loss)	**$ 10,419**	$ (67,002)
EARNINGS PER COMMON SHARE (Note 9):		
Before extraordinary items	**$ .01**	$(1.26)
Extraordinary items	**(.17)**	(.35)
Net loss	**$(.16)**	$(1.61)

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

December 31, 1972 and 1971

	1972	1971
	(Amounts in thousands)	
Assets		
CURRENT ASSETS:		
Cash	**$ 182,425**	$ 237,060
Receivables, net of reserves	**416,539**	436,306
Inventories, substantially at the lower of cost (average or first in, first out) or market	**190,043**	192,584
Prepaid expenses	**21,212**	23,940
Marketable securities, at cost which approximates market	**1,581**	1,228
Total current assets	**811,800**	891,118
LONG-TERM RECEIVABLES, net of reserves	**26,983**	37,205
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATED COMPANIES (Note 2)	**155,070**	145,149
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 3 and 5), net of accumulated depreciation, depletion and amortization of $705,440 in 1972 and $629,105 in 1971	**1,437,195**	1,374,001
OTHER ASSETS, less amortization (Note 4)	**130,999**	132,555
	$2,562,047	$2,580,028

The accompanying notes are an integral part of these balance sheets.

	1972	1971
	(Amounts in thousands)	
Liabilities		
CURRENT LIABILITIES:		
Notes and debt due within one year (Note 5)	**$ 154,661**	$ 178,071
Accounts payable and accrued liabilities	**342,965**	305,015
Domestic and foreign income, franchise and other taxes (Note 10)	**60,961**	170,142
Total current liabilities	**558,587**	653,228
SENIOR FUNDED DEBT (Note 5)	**870,834**	773,734
CONVERTIBLE SUBORDINATED DEBENTURES (Notes 5 and 8)	**125,000**	125,000
DEFERRED CREDITS:		
Revenue on sale of future production	**51,390**	46,911
Deferred domestic and foreign income taxes (Note 10)	**27,465**	20,544
Reserve for loss on emergency fleet position (Note 6)	**35,682**	65,000
Other	**43,726**	39,364
	158,263	171,819
CONTINGENT LIABILITIES AND COMMITMENTS (Note 7)		
MINORITY EQUITY IN SUBSIDIARIES	**18,770**	16,888
SHAREHOLDERS' EQUITY (Notes 5, 8 and 9):		
Preferred stocks (aggregate preference on involuntary liquidation $495,022)	**5,237**	5,238
Common shares	**11,134**	11,134
Capital surplus	**500,662**	500,662
Retained earnings	**313,560**	322,325
	830,593	839,359
	$2,562,047	$2,580,028

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 1972 and 1971

	Preferred Stocks (Note 8)	Common Shares (Note 8)	Capital Surplus	Retained Earnings
		(Amounts in thousands)		
BALANCE, DECEMBER 31, 1970	$5,776	$10,793	$500,073	$457,146
ADD (DEDUCT):				
Net loss	—	—	—	(67,002)
Issuance of shares—				
Exercise of employee stock options	—	7	473	—
Conversions of preferred stocks	(538)	334	204	—
Dividends—				
Cash on common shares	—	—	—	(47,475)
Cash on preferred stocks	—	—	—	(20,344)
Other, net	—	—	(88)	—
BALANCE, DECEMBER 31, 1971	5,238	11,134	500,662	322,325
ADD (DEDUCT):				
Net income	—	—	—	10,419
Issuance of shares on conversions of preferred stocks	(1)	—	—	—
Cash dividends on preferred stocks	—	—	—	(19,184)
BALANCE, DECEMBER 31, 1972 (Note 5)	$5,237	$11,134	$500,662	$313,560

The accompanying notes are an integral part of these statements.

Occidental Petroleum Corporation and Consolidated Subsidiaries

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1972 and 1971

	1972	1971
	(Amounts in thousands)	
SOURCE OF FUNDS:		
Net income (loss) before extraordinary items	**$ 19,675**	$ (48,018)
Add (deduct)—Items not requiring an outlay of working capital—		
Depreciation, depletion and amortization	**122,096**	125,885
Provision for loss on emergency fleet position (Note 6)	**—**	65,000
Utilization of reserve for loss on emergency fleet position (Note 6)	**(29,318)**	—
Earnings of unconsolidated subsidiaries and minority interest	**2,656**	2,528
Other nonfund items, net	**5,202**	5,211
Working capital provided from operations exclusive of extraordinary items	**120,311**	150,606
Extraordinary items	**(9,256)**	(18,984)
Add—Extraordinary items not requiring an outlay of working capital	**8,500**	8,698
	119,555	140,320
Proceeds from—		
Stock options exercised	**—**	480
Long-term borrowings	**182,655**	81,600
Convertible subordinated debentures	**—**	125,000
Sale of future production	**8,185**	6,307
Prepaid revenues	**3,940**	25,900
Disposals of assets	**12,081**	29,454
Payments of notes receivable	**16,417**	17,866
	342,833	426,927
USE OF FUNDS:		
Additions to property, plant and equipment	**181,502**	216,927
Payment of cash dividends	**19,184**	67,819
Reduction in long-term borrowings	**85,555**	191,963
Liquidation of production payments	**3,706**	12,226
Investments, advances, etc.	**12,724**	11,789
Additions to notes receivable	**6,635**	19,467
Additions to other assets	**15,975**	14,213
Other, net	**2,229**	6,413
	327,510	540,817
INCREASE (DECREASE) IN WORKING CAPITAL	**$ 15,323**	$(113,890)
CHANGES IN COMPONENTS OF WORKING CAPITAL—increase (decrease):		
Current assets—		
Cash and marketable securities	**$(54,282)**	$(169,839)
Receivables and prepaid expenses	**(22,495)**	8,143
Inventories	**(2,541)**	(2,558)
Total current assets	**(79,318)**	(164,254)
Current liabilities—		
Notes and debt due within one year	**23,410**	58,325
Accounts payable, accrued liabilities and other payables	**(37,950)**	6,574
Domestic and foreign income, franchise and other taxes	**109,181**	(14,535)
Total current liabilities	**94,641**	50,364
NET INCREASE (DECREASE) IN WORKING CAPITAL	**$ 15,323**	$(113,890)

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Accounting policies

The following is a list of notes in which the company's accounting policies are described:

Note 2 — Principles of consolidation, investments in unconsolidated subsidiaries and foreign currency translations.

Note 3 — North American oil and gas expenditures, foreign oil and gas exploration and depreciation of plant and equipment.

Note 4 — Other assets.

Note 6 — Emergency fleet position.

Note 8 — Stock options.

Note 10 — Income, franchise and other taxes.

Note 11 — Retirement income plans.

2. Principles of consolidation

The consolidated financial statements include the accounts of Occidental Petroleum Corporation and its significant subsidiaries. The company's real estate subsidiary and certain insignificant subsidiaries have not been consolidated since their operations are not similar to those of Occidental and its consolidated subsidiaries. All material intercompany accounts and transactions have been eliminated.

At December 31, 1972, investments in unconsolidated majority-owned subsidiaries are stated at amounts equivalent to the equity in net assets of those companies, except that certain investments in and advances to foreign subsidiaries and affiliates are stated at the lower of cost or the equity in their net assets. The equity in net income or loss of unconsolidated subsidiaries, which is not significant, is included in interest, dividends, etc., in the accompanying consolidated statements of operations.

Foreign assets and liabilities have been translated to U.S. dollars at year-end exchange rates, except that property has been translated at approximate rates prevailing when acquired. Income and expense items have been translated at average rates of exchange prevailing during the year, except that depreciation has been calculated at the approximate rates prevailing when the properties were acquired.

Approximately $1,006 million of assets, $725 million of liabilities and $1,248 million of revenues included in the consolidated financial statements pertain to operations outside the United States and Canada.

3. Property, plant and equipment, at cost

	December 31 1972	December 31 1971
	(Amounts in thousands)	
Oil and gas operations—		
International production, exploration, pipeline, etc.	$ 589,124	$ 528,214
International marketing, refining and transportation	166,443	165,135
North America	257,771	244,551
Chemical operations	690,870	659,110
Coal operations	438,427	406,096
	2,142,635	2,003,106
Less— Accumulated depreciation, depletion and amortization	705,440	629,105
	$1,437,195	$1,374,001

All costs of exploring for and developing oil and gas reserves in North America are capitalized under the "full cost" method of accounting and charged to operations on a unit-of-production basis over the estimated life of future production. Oil and gas operations outside North America are accounted for under this method on a country-by-country basis. At December 31, 1972, the company has expended approximately $96,800,000 for foreign exploration, exclusive of Libya. There are approximately $51,700,000 of costs in areas where exploration is currently in progress, principally Venezuela, where no commercial discoveries have been made, for which the company has a reserve of $16,500,000 against this exposure. Significant discoveries have been made in the North Sea, Nigeria and Peru.

Depreciation of plant and equipment has been provided using the straight-line and declining-balance methods based on useful lives.

4. Other assets

Preoperating and project development costs amounting to $30,495,000 at December 31, 1972, are deferred until the related facilities or projects are brought into commercial operation. These costs are then amortized over the expected useful life of the facilities or projects. Costs relating to abandoned projects are charged to operations at such time as the projects are determined to have no commercial application. Deferred financing costs of $26,023,000 at December 31, 1972, are being amortized on the basis of the terms of the related financing agreements.

The excess of cost of investment in consolidated subsidiaries over the net assets at acquisition date at December 31, 1972, is $51,585,000 of which $40,648,000 is not being amortized since, in the opinion of management, there has been no diminution in the value of the acquired businesses. The remaining costs of $10,937,000 are being amortized over periods from 10 to 40 years which represent the estimated periods to be benefited.

5. Long-term debt, net of current maturities of $91,617,000

	Interest Rate (Percent)	December 31 1972 (Amounts in thousands)
Senior funded debt—		
Revolving credit notes due 1974-1978	5-3/4 to 6-1/4	$243,000
Eurodollar revolving credit notes due 1974-1977	6-5/16 to 7-3/8	107,600
Eurobonds due 1974-1988	6-1/2 to 9-1/4	139,569
Notes due 1974-1975	3-5/8 to 8	134,210
Notes due 1976-1980	3-5/8 to 7-3/4	88,861
Notes due 1981-1989	4-1/2 to 7-3/4	79,771
Notes due 1974-1986, secured by mortgages on property, plant and equipment	5-7/8	20,427
Sinking fund debentures due 1974-1991	4-7/8	22,000
Others due 1974-1992	Various	35,396
		$870,834
Subordinated debt—convertible debentures due 1982-1996	7-1/2	$125,000

The interest rate on certain notes is dependent on prime interest rates which may fluctuate from time to time. Certain of the above indebtedness has been borrowed under agreements which contain covenants relating to maintenance of financial ratios, borrowings, declaration of cash dividends, etc. At December 31, 1972, there are retained earnings of $313,560,000, and under the most restrictive of the company's loan agreements, further cash dividends on common shares cannot be paid until retained earnings total approximately $357 million. This covenant does not prevent the payment of regular fixed dividends on preferred stock; however, under another covenant, retained earnings of approximately $226 million are restricted as to the payment of all cash dividends.

At December 31, 1972, Occidental had unused domestic lines of bank credit aggregating $72 million with commitment fees of one half per cent per annum.

6. Emergency fleet position

Starting in May, 1970, when the Libyan government was demanding increased revenues from oil producers in Libya, the government ordered several cutbacks in permissible levels of production of Occidental of Libya, Inc. and other major producers. Because of this curtailment and the threat of further dislocation of the company's favorable source of crude oil, a wholly-owned subsidiary of the company, as an emergency measure, began to substantially increase its marine fleet tonnage through additional time charter commitments. As a result of the settlements with Libya, the subsidiary's expanded fleet position at December 31, 1971, significantly exceeded its normal operating requirements. This excess position coupled with the major downward adjustment of world shipping rates during 1971 resulted in substantial losses on the excess capacity. Because the terms of charter agreements for the excess vessels extend, in part, into 1974, a reserve of $65 million against possible future losses on those vessels has been included in the $87,931,000 charged against 1971 operations.

Income from the emergency fleet in 1972 was $2,662,000 after charging the reserve for $29,318,000 for costs reserved in 1971. The income is the result of the benefit of negotiated rate reductions on a portion of the emergency fleet and an improvement in tanker rates in 1972.

To the extent potential losses for which this reserve was provided are not realized as a result of improved tanker rates, future earnings will benefit.

7. Contingent liabilities and commitments

A number of class actions and derivative actions have been filed against Occidental, its chairman and others, containing allegations, among others, concerning improper recognition of income by Occidental, chiefly in certain transactions and matters in the years 1969 and 1970. The class actions, primarily alleging violations of Section 10(b) of the Securities Exchange Act of 1934, seek damages in amounts not yet ascertainable which were purportedly suffered by persons who purchased or held Occidental securities. Occidental has been advised by special legal counsel that, based upon the information known to them, the defendants appear to have a meritorious defense to the claims made in these actions and should prevail. The derivative actions do not seek damages against Occidental.

In 1967, an investment banker filed suit claiming a 25 per cent working interest in Occidental's oil concessions in Libya, or damages in the amount of $100 million. The plaintiffs allege that they were offered an opportunity to acquire oil concessions in Libya by a third party, and that they submitted this to Occidental on the understanding they would participate as a 25 per cent joint venturer with Occidental in any oil concessions turned up by the third party. The plaintiffs further claim that the third party turned up and assisted Occidental in acquiring the two Libyan oil concessions awarded to Occidental. Occidental has been advised by special legal counsel that, in their opinion, based upon the information known to them, Occidental has a meritorious defense to the claim and should prevail.

In 1967, suits were filed against Occidental in conjunction with its purchase of stock of Kern County Land Company and subsequent grant of an option to Tenneco Corporation to purchase the Tenneco stock to be issued to Occidental following the acquisition of Kern by Tenneco. The plaintiffs seek to recover, under Section 16(b) of the Securities Exchange Act of 1934, profits from the transaction allegedly amounting to $20 million, or to impose a constructive trust on the option price, or to recover punitive damages totaling $25 million for alleged breach of fiduciary duty, or a combination of the foregoing. In one of these suits, a motion for summary judgment pertaining to the alleged Section 16(b) profits was decided in the plaintiff's favor and judgment was entered for recovery of $23,500,000, including interest. However, that judgment was reversed on appeal to the U.S. Court of Appeals for the Second Circuit, and that court directed that summary judgment be entered in favor of Occidental. Following the grant of a petition for writ of certiorari to the Supreme Court of the United States, the case was argued before that court in December, 1972, but has not yet been decided. It is the opinion of Occidental's special legal counsel that Occidental should prevail. Occidental has counterclaims pending in the same lawsuits in a sum exceeding plaintiffs' claims.

There are various other lawsuits pending against Occidental and its subsidiaries, some of which involve substantial amounts. While at this time it is impossible to determine the ultimate liabilities which may arise from such other litigation, in the opinion of Occidental's general counsel such lawsuits are not likely to result in losses the aggregate amount of which would have a material adverse effect upon the consolidated financial position of Occidental and its subsidiaries or result in a substantial impairment of their operations.

Occidental and its subsidiaries have certain other contingent liabilities as guarantors of debt and contracts and as joint venturers. Officials of the company are of the opinion that such contingent liabilities will not result in any significant financial liability in relation to the net assets of Occidental and its subsidiaries.

Occidental, in the ordinary course of business, contracts for marine tankers over extended periods, and these commitments involve charter rentals that are substantial in amount. The total of such commitments outstanding at December 31, 1972, amounts to approximately $315,407,000 (see Note 6). Occidental has other leases, principally for property and machinery and equipment, with commitments outstanding at December 31, 1972, of approximately $128 million. These leases expire between the years 1973 and 2037 and had an annual rental charge of $19,700,000 in 1972.

The Libyan government has been negotiating, and in one case concluded, agreements with oil producers to acquire a direct participating interest in their concession rights. In one reported agreement, Libya obtained an immediate participating interest of 50 per cent in the concession rights of another producer in Libya. No prediction can be made by Occidental at this time regarding the nature of any agreement which may be concluded with the Libyan government on this subject.

8. Capital stock and stock options

The holders of preferred stocks are entitled to voting rights and cumulative quarterly dividends. The $8.00 preferred stock is redeemable at the option of Occidental at $100 per share or by operation of a sinking fund commencing in 1978. The $4.00 preferred stock is redeemable at the option of Occidental at $125 per share after April 1, 1973, and at declining amounts thereafter. The $3.60 preferred stock is redeemable at the option of Occidental at $100 per share on or after October 1, 1973. The $2.16 preferred stock is redeemable at the option of Occidental at $47.50 per share on or after October 1, 1973.

The convertible subordinated debentures are redeemable at the option of Occidental, in whole or in part, initially at 107.5 per cent of the principal amount plus accrued interest, and at decreasing premiums thereafter. The debentures are subject to a sinking fund, commencing June 15, 1982, retiring $6,250,000 principal amount annually, and in addition Occidental may, at its option, commencing June 15, 1976, retire up to $6,250,000 principal amount annually, in each case at 100 per cent of the principal amount plus accrued interest. The debentures are convertible prior to maturity, unless previously redeemed, into common shares of Occidental at $20 per share, subject to adjustment as provided in the Indenture Agreement.

Options to purchase common shares of Occidental have been granted to officers and employees under stock option plans adopted in 1966 and 1971. At December 31, 1972, 1,296,909 common shares were reserved for issuance under outstanding options at prices from $11.25 to $48.53 per share, and 1,433,671 common shares were reserved for the granting of additional options. During 1972, options to purchase 114,905 common shares were granted; no options to purchase common shares were exercised; options to purchase 630,523 shares became exercisable, and options to purchase 346,185 shares were canceled. No amounts have been reflected in the income accounts of Occidental or its subsidiaries with respect to stock options.

Following is a description of capital stock at December 31, 1972, and a summary of activity for the year then ended:

		Preferred Stocks			
		Nonconvertible	Convertible		
	Common Shares	$8.00	$4.00	$3.60	$2.16
Par value	$.20	$1.00	$1.00	$1.00	$1.00
Conversion rate			3.1066	3.1908	1.5813
Authorized	100,000,000	15,000,000			
	(Shares in thousands)				
Balance, December 31, 1971	55,670*	175	1,250	3,265	548
Conversions of preferred stock	—	—	(1)	—	—
Balance, December 31, 1972	55,670*	175	1,249	3,265	548

*Includes 566,546 shares held in treasury at December 31, 1972, and December 31, 1971.

The company has reserved approximately 15,167,000 common shares for conversion of the preferred stocks and 6,250,000 common shares for conversion of convertible subordinated debentures. The $8.00 nonconvertible preferred stock and the $4.00 and $3.60 convertible preferred stocks have rights in liquidation equivalent to $100 per share. The $2.16 convertible preferred stock has liquidation rights of $47.50 per share. Aggregate rights in involuntary liquidation for all preferred stocks total $495,022,000.

9. Earnings per share

The loss per common share for 1972 and 1971 is based upon earnings applicable to average common shares outstanding in both years. Earnings per common share before extraordinary items in 1972 is based upon earnings applicable to average common shares outstanding during the year and 2,000 shares of stock options which were common stock equivalents. Fully diluted loss per share for 1972 and 1971 has not been shown since the effect would be antidilutive. Following is the calculation of loss per common share for 1972 and 1971.

	1972		1971	
	Shares	Net Income	Shares	Net Loss
	(Shares and amounts in thousands)			
Net income (loss)		$10,419		$(67,002)
Dividend requirements of preferred stocks		19,184		20,344
Loss applicable to common shares		$(8,765)		$(87,346)
Average outstanding common shares	55,104		54,211	
Loss per common share		$(.16)		$(1.61)

10. Domestic and foreign income, franchise and other taxes

Occidental follows the practice of filing consolidated U.S. federal tax returns including its 80 per cent or more owned domestic subsidiaries. As a result of the deduction of certain items for tax purposes which are capitalized for financial statement purposes, and as a result of the utilization of foreign tax credits, no federal taxes have been paid or provided for Occidental for 1972 except for a tax on tax preference items as prescribed by the Revenue Act of 1969. Substantially all of the 1972 provision for foreign income, franchise and other taxes relates to Occidental's Libyan operations.

11. Retirement income plans

The company and its subsidiaries have several pension plans covering substantially all of their employees. The total expense of the plans for 1972 was approximately $7 million which, for certain plans, includes amortization of prior service costs. The company's policy is to fund pension costs accrued. At December 31, 1972, the actuarially computed value of vested benefits for all plans was substantially fully funded.

12. Extraordinary items

Currency exchange losses in 1972 resulted in a net loss of $10,194,000 of which $8,500,000 arose from agreement with the Libyan government on the latter's demand for an increase in prior tax liabilities to reflect the 1971 devaluation of the U.S. dollar. The remaining currency losses resulted from translation of assets and liabilities into U.S. dollars from the pound sterling. In 1971, the movement of funds from one currency to another and the translation of assets and liabilities into U.S. dollars from other currencies resulted in a net loss of $10,511,000.

The other extraordinary item in 1972 consisted of a gain on sale of property. Other extraordinary gains and losses in 1971 resulted primarily from the sale or abandonment of property, plant and equipment. Gains amounted to $5,032,000, including $2,850,000 from the sale of Hooker Farm Chemicals of Taft, Inc. in compliance with a divestiture order by the Federal Trade Commission. These gains were more than offset by losses that amounted to $13,505,000 from other transactions.

Since Occidental has not paid or provided federal taxes in 1972 and 1971, except as explained in Note 10, no tax effect has been recognized to reduce these gains or losses.

13. Subsequent event

On February 13, 1973, the U.S. dollar was devaluated 10 per cent in relation to most other currencies. The ultimate net loss, which will appear as an extraordinary charge to operations in 1973, is estimated to be approximately $1,500,000.

Report of Independent Public Accountants

To the Shareholders and Board of Directors,
Occidental Petroleum Corporation:

We have examined the consolidated balance sheets of OCCIDENTAL PETROLEUM CORPORATION (a California corporation) and subsidiaries as of December 31, 1972 and 1971, and the related consolidated statements of operations, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Occidental Petroleum Corporation and subsidiaries as of December 31, 1972 and 1971, and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Los Angeles, California,
February 16, 1973.

Ten Year Statistical Summary of Consolidated Operations

(Amounts in thousands)

	1972	1971	1970
Oil and gas sales revenues:			
International production and exploration	**$ 353,029**	$ 367,012	$ 283,362
International refining, marketing and transportation	**676,571**	736,197	640,375
North America	**605,480**	578,776	541,782
Chemical sales and revenues	**830,648**	706,036	657,980
Coal sales and revenues	**255,119**	247,187	262,163
Net sales and other revenues			
Reflecting poolings of interests	**$2,720,847**	$2,635,208	$2,385,662
As originally reported	**$2,720,847**	$2,635,208	$2,385,662
Income (loss) before extraordinary items	**$ 19,675**	$ (48,018)	$ 175,234
Extraordinary items	**(9,256)**	(18,984)	—
Net income (loss) including sales of coal lease rights in 1970 and 1969*			
Reflecting poolings of interests	**$ 10,419**	$ (67,002)	$ 175,234
As originally reported	**$ 10,419**	$ (67,002)	$ 175,234
Primary earnings per share including sales of coal lease rights in 1970 and 1969*[1]			
Before extraordinary items	**$ 0.01**	$ (1.26)	$ 2.92
Extraordinary items	**(0.17)**	(0.35)	—
Total			
Reflecting poolings of interests	**$ (0.16)**	$ (1.61)	$ 2.92
As originally reported[2]	**$ (0.16)**	$ (1.61)	$ 2.92
Fully diluted earnings including sales of coal lease rights in 1970 and 1969	**—[3]**	—[3]	$ 2.53
Cash dividends paid per common share, as originally reported[2]	**$ 0.12½**	$ 1.00	$ .99
Total assets as originally reported	**$2,562,047**	$2,580,028	$2,655,936
Operating cash flow as originally reported	**$ 120,311**	$ 150,606	$ 282,044
Net income excluding sales of coal lease rights*			$ 170,775
Primary earnings per share excluding sales of coal lease rights*			$ 2.83
Fully diluted earnings per share excluding sales of coal lease rights*			$ 2.47

*The Securities and Exchange Commission has alleged that certain sales of coal lease rights should not have been included in income in 1969 and 1970. The company believes that the inclusion of such sales in income was proper. If such sales were not included in income, earnings per share would be as set forth above on the last two asterisked lines.

[1]Based on average number of shares outstanding after giving effect to (a) stock dividends issued through 1970 and (b) the issuance of common shares in connection with poolings of interests.

[2]Adjusted for stock dividends and 3-for-1 stock split. [3]Fully diluted loss per share has not been shown since the effect would be antidilutive.

1969	1968	1967	1966	1965	1964	1963
$ 299,991	$ 240,384	$ —	$ —	$ —	$ —	$ —
396,205	359,350	—	—	—	—	—
545,067	481,626	513,705	506,830	466,970	426,448	342,430
625,322	571,465	520,155	519,865	450,362	413,635	273,806
192,513	153,967	139,424	135,627	109,890	112,112	93,604
$2,059,098	$1,806,792	$1,173,284	$1,162,322	$1,027,222	$952,195	$709,840
$2,059,098	$1,806,792	$ 825,740	$ 658,544	$ 81,105	$ 44,984	$ 32,724
$ 174,835	$ 134,138	$ 55,396	$ 53,878	$ 46,921	$ 39,374	$ 29,718
—	—	12,861	5,685	4,125	4,255	6,148
$ 174,835	$ 134,138	$ 68,257	$ 59,563	$ 51,046	$ 43,629	$ 35,866
$ 174,835	$ 134,138	$ 45,548	$ 22,730	$ 14,736	$ 9,381	$ 6,656
$ 2.97	$ 2.30	$ .70	$ .77	$ .61	$ .44	$ .16
—	—	.32	.16	.12	.14	.20
$ 2.97	$ 2.30	$ 1.02	$ .93	$ .73	$ .58	$ .36
$ 3.00	$ 2.32	$ .98	$ .66	$ .63	$ .43	$ .34
$ 2.54	$ 2.00	—	—	—	—	—
$ .89	$ .36	$ .25	$ .22	$ .16	$ .14	$ .14
$2,213,506	$1,788,245	$ 779,132	$ 445,270	$ 204,705	$113,462	$ 50,484
$ 247,512	$ 218,010	$ 70,288	$ 35,113	$ 11,217	$ 5,729	$ 10,254
$ 165,902						
$ 2.80						
$ 2.41						

Subsidiaries, Divisions and Affiliates

Oil and Gas Exploration and Production Division

Division Headquarters
5000 Stockdale Highway
Bakersfield, California 93309

REGIONAL OFFICE

Houston, Texas

Occidental of Libya, Inc. (Oxylibya)
Mitchell Cotts House, P.O. Box 2134
Tripoli, Libyan Arab Republic

Occidental Petroleum of Nigeria
178 Awolowo Road, Ikoyi
P.O. Box 3992
Lagos, Nigeria

Occidental Petroleum Corporation of Peru
Edificio El Dorado
Avenida Arequipa 2450, Suite 1601
Casilla 825
Lima, Peru

Occidental of Umm Al Qaywayn, Inc.
P.O. Box 27
Umm Al Qaywayn, United Arab Emirates
Arabian Gulf

Occidental Petroleum of Saudi Arabia, Inc.
P.O. Box 1935
Jeddah, Saudi Arabia

Occidental of Trinidad, Inc.
3 Queens Park West
P.O. Box 771
Port-of-Spain, Trinidad and Tobago
West Indies

Occidental of Britain, Inc.
4, Grosvenor Place, 2nd Floor
London SW1X 7HF, England

Occidental Petroleum de Venezuela, S.A.
Centro Comercial Avenida Libertador,
Avenida Libertador (Cruce con Negrin)
Apartado Postal 60784 de Chacao
Caracas, Venezuela

Crude Oil Marketing Division

The Permian Corporation
4671 Southwest Freeway
P.O. Box 1183
Houston, Texas 77027

REGIONAL SALES OFFICES

4671 Southwest Freeway
P.O. Box 1183
Houston, Texas, 77027

1509 West Wall Street
P.O. Box 3119
Midland, Texas 79701

1700 Broadway
Suite 1913
P.O. Box 1528
Denver, Colorado 80201

Permian Trading Corporation
Boyle Building, Church Street
P.O. Box 1736
Hamilton, Bermuda

International Oil Marketing, Refining and Transportation Division

Concord Petroleum Corporation
Boyle Building, Church Street
P.O. Box 1736
Hamilton, Bermuda

Courtage Occidental
143 Avenue Charles de Gaulle
92 Neuilly-sur-Seine, France

Isherwoods Garages Limited
Fairbairn House, Ashton Lane
P.O. Box 1
Sale, M33 1NR Cheshire, England

Mawag Raffinerien AG
Freigutstrasse 8
Postfach 8039
8002 Zurich, Switzerland

Occidental Crude Sales, Inc.
10889 Wilshire Boulevard, Suite 1500
Los Angeles, California 90024

Occidental International Oil, Inc.
Branch Office
Portland House, Stag Place
London SW1E 5BY, England

Occidental Nederland B.V.
Dr. H. Colijnlaan 204
Treubstraat 19
P.O. Box 225
Rijswijk (Z.H.), The Netherlands

Occidental Oel GmbH
Graf-Adolf-Strasse 73
Postfach 6027
D-4000 Dusseldorf 1, Germany

Occidental Refineries Limited
2, Curzon Place
London W 1, England

Oxycar N. V.
Frankrijklei 67-69
P.O. Box 154B
2000, Antwerp, Belgium

Raffinerie Belge de Petroles S.A. (RBP)
Frankrijklei 67-69, P.O. Box 399
2000, Antwerp, Belgium

Teerchemie Gesellschaft Für
Chemische und
Mineralölprodukte mbH
51 Jungfernstieg
200 Hamburg 36, Germany

VIP Petroleum Limited
Fairbairn House, Ashton Lane
P.O. Box 1
Sale M33 1NR, Cheshire, England

Coal Division

Island Creek Coal Company
1501 Euclid Avenue
Cleveland, Ohio 44115

OPERATING DIVISIONS

Holden, West Virginia; Keen Mountain, Virginia; Madisonville, Kentucky; Tire Hill, Pennsylvania

Chemical Division

HOOKER CHEMICALS AND PLASTICS DIVISION

Hooker Chemical Corporation
1515 Summer Street
Stamford, Connecticut 06905

ELECTROCHEMICAL DIVISION

Buffalo Avenue at 47th Street
P.O. Box 344
Niagara Falls, New York 14302

SPECIALTY CHEMICALS DIVISION

Buffalo Avenue at 47th Street
P.O. Box 344
Niagara Falls, New York 14302

Puerto Rico Chemical Co., Inc.
Apartado Postal 157
Arecibo, Puerto Rico 00613

DUREZ DIVISION

Walck Road
North Tonawanda, New York 14120

RUCO DIVISION

River Road
P.O. Box 456
Burlington, New Jersey 08016

INTERNATIONAL DIVISION

1515 Summer Street
Stamford, Connecticut 06905

Duranor, S.A.I.C.
San Martin 379-Piso 2°
Buenos Aires, Argentina

Hooker Mexicana, S.A. de C.V.
Apartado Postal M-7529
Mexico 1, D.F.

N. V. Hooker Chemical S.A.
Square de Meeus 1
Brussels 1040, Belgium

Sumitomo Durez Co., Ltd.
2-2, Uchsaiwai-cho, 1 Chome
Chiyoda-ku
Tokyo 100, Japan

Cueros Artificiales, S.A. de C.V. (Cueros)
Calzada San Francisco No. 102
Naucalpan de Juarez
Apartado Postal 8803
Estado de Mexico, Mexico

Eriez Produtos Magneticos e
Metalurgicos Limitada (Eriez)
Avenida Ipiranga, 318, Bloco B-5° Floor
Caixa Postal 2632
Sao Paulo, Brazil

Plasticos y Derivados C.A. (Playdeca)
Final de la Calle Bolivar
Baruta, Edo. Miranda
Apartado Postal 62410
Caracas, Venezuela

Plastiflex C.A. (Plastiflex)
Final de la Calle Paez
Baruta, Edo. Miranda
Apartado Postal 62410
Caracas, Venezuela

Sinteticos S.A.
Calle 31 No. 44-13
Apartado Aereo No. 839
Medellin, Colombia

Vulcan Material Plastico S.A. (Vulcan)
Avenida Rio Branco 156-20°, Andar
Caixa Postal 4400-ZC-21
Rio de Janeiro, Brazil

OXY METAL FINISHING DIVISION

Oxy Metal Finishing Corporation
21441 Hoover Road
Warren, Michigan 48089

DIVISIONS

The Udylite Company
21441 Hoover Road
Warren, Michigan 48089

The Parker Company
32100 Stephenson Highway
Madison Heights, Michigan 48071

The Sel-Rex Company
75 River Road
Nutley, New Jersey 07110

Oxy Metal Finishing International
Avenue de l'Etang 65, 1211 Chatelaine
Geneva, Switzerland
and
75 River Road
Nutley, New Jersey 07110

Oxy Metal Finishing
(Great Britain) Limited
Sheerwater
Woking, Surrey, England

Electroplating Engineers (Nederland) N.V.
Molenstraat 7
Helvoirt, The Netherlands

Oxy Metal Finishing (Espana) S.A.
Carretera de Madrid, 118
San Justo Desvern (Barcelona)
Spain

MacDermid Oxy S.A.
No. 2 Building, Sheerwater
Woking, Surrey, England

Oxy Metal Finishing (Benelux) B.V.
Koenendelseweg 29
P.O. Box 1111
's-Hertogenbosch, The Netherlands

Oxy Metal Finishing France S.A.
6, Rue de la Gare
93270 Sevran
Paris, France

Oxy Metal Finishing (Suisse) S.A.
Avenue de l'Etang 65, 1211 Chatelaine
Geneva, Switzerland

Sel-Rex (U.K.) Limited
Holyhead Road
Chirk, Wrexham
Denbighshire, Wales

Ebara-Udylite Co., Ltd.
First Building 18-8
Higashi-Ueno 2-Chome
Taitoh-ku, Tokyo, Japan

Oxy Metal Finishing GmbH
Hermanngasse 25
A-1070 Vienna, Austria

Oxy Effluent Control Ltd.
Britannia House
Mole Street
Birmingham, B12 8HS
England

Oxy Metal Finishing (Australia)
Pty. Limited
Stud Road
P.O. Box 20
Bayswater, Victoria 3153
Australia

Oxy Metal Finishing (N.Z.) Limited
55-57 Patiki Road
P.O. Box 2786
Avondale, Auckland 7, New Zealand

Industrias Quimicas Ingalco S.A.I.C.F.
William C. Morris 451-89
Villa Martelli
Buenos Aires, Argentina

Oxy Metal Finishing (Asia) Limited
Gee Chang Industrial Building
108, Lok Shan Road
Flat-1, 5th Floor
Kowloon, Hong Kong B.C.C.

Oxy Metal Finishing Brasil S.A.
Industria e Comercio
Avenida Ipiranga, 1097
Caixa Postal 8179
Sao Paulo, Brazil

Oxymex S.A. de C.V.
Norte 45 No. 991
Col. Industrial Vallejo
Mexico 16, D.F.

Oxy Metal Finishing (Danmark) A/S
SCT Knudsvej 22
1903 Copenhagen
Denmark

Oxy Metal Finishing (Intra) S.A.
Avenue de l'Etang 65, 1211 Chatelaine
Geneva, Switzerland
and
National Hotel
Moscow, U.S.S.R.

Electroplating Engineers of Japan Limited
14-2 Nagatoro, Hiratsuka-Shi, 254
Kanagawa-ken
Japan

AGRICULTURAL CHEMICALS,
FERTILIZERS AND SULPHUR DIVISION

Occidental Chemical Company (Oxychem)
4671 Southwest Freeway
P.O. Box 1185
Houston, Texas 77027

REGIONAL HEADQUARTERS

Lathrop, California; Houston, Texas;
Sioux Falls, South Dakota; Springfield, Ohio

Feed Products Division
115 Progress Parkway
Maryland Heights, Missouri 63042

International Ore & Fertilizer Corporation
(Interore)
380 Madison Avenue
New York, New York 10017

Jacksonville Bulk Terminals, Inc.
1301 Wigmore Street
Jacksonville, Florida 32206

Jefferson Lake Sulphur Company
4671 Southwest Freeway
P.O. Box 1185
Houston, Texas 77027

Leather's Chemical Company Limited
Rawdon House, Green Lane
Yeadon, Leeds LS 19 7XX, Yorkshire
England

Suwannee River Phosphate Division
P.O. Box 300
White Springs, Florida 32096

Garrett Research and Development Division

Garrett Research and Development
Company, Inc.
1855 Carrion Road
P.O. Box 310
La Verne, California 91750

Searles Lake Chemical Corporation
1855 Carrion Road
La Verne, California 91750

Occidental Corporation of Saudi Arabia
P.O. Box 572
Dammam, Saudi Arabia

Minerals Division

Occidental Minerals Corporation (Oxymin)
6073 West 44th Avenue
Wheat Ridge, Colorado 80033

Real Estate Division

Occidental Petroleum Land and
Development Corporation
4201 Birch Street
P.O. Box B
Newport Beach, California 92660

International Hotel Division

DIVISION HEADQUARTERS

10889 Wilshire Boulevard, Suite 1500
Los Angeles, California 90024

Occidental Hotel Corporation
Boyle Building, Church Street
P.O. Box 1736
Hamilton, Bermuda

Other Subsidiaries

Canadian Occidental Petroleum Ltd.
1000 Calgary House
550 Sixth Avenue S.W.
Calgary, Alberta, Canada T2P OS3

Occidental International Corporation
1717 Pennsylvania Avenue N.W.
Washington, D.C. 20006

Registrars

Bank of America
National Trust & Savings Association
Los Angeles, California

The Chase Manhattan Bank
National Association
(Common Stock only)
New York, New York

First National City Bank
($4.00 Convertible Preferred Stock only)
New York, New York

Chemical Bank New York Trust Company
($3.60 and $2.16 Convertible
Preferred Stocks only)
New York, New York

Montreal Trust Company
(Common Stock only)
Toronto, Ontario, Canada

Transfer Agents

Security Pacific National Bank
Los Angeles, California

The Chase Manhattan Bank
National Association
New York, New York

Canada Permanent Trust Company
(Common Stock only)
Toronto, Ontario, Canada

Debenture Trustee

Bank of America
National Trust & Savings Association
Los Angeles, California

Authentication Agent

Bankers Trust Company
New York, New York

Auditors

Arthur Andersen & Co.
Los Angeles, California

Stock Exchange Listings

COMMON STOCK

New York Stock Exchange
Pacific Coast Stock Exchange
Amsterdam Stock Exchange
Antwerp Stock Exchange
Brussels Stock Exchange
Dusseldorf Stock Exchange
Frankfurt Stock Exchange
Hamburg Stock Exchange
The Stock Exchange, London
Toronto Stock Exchange

CONVERTIBLE PREFERRED STOCK
New York Stock Exchange

DEBENTURES
New York Stock Exchange

Executive Offices

The Kirkeby Center
10889 Wilshire Boulevard
Los Angeles, California 90024

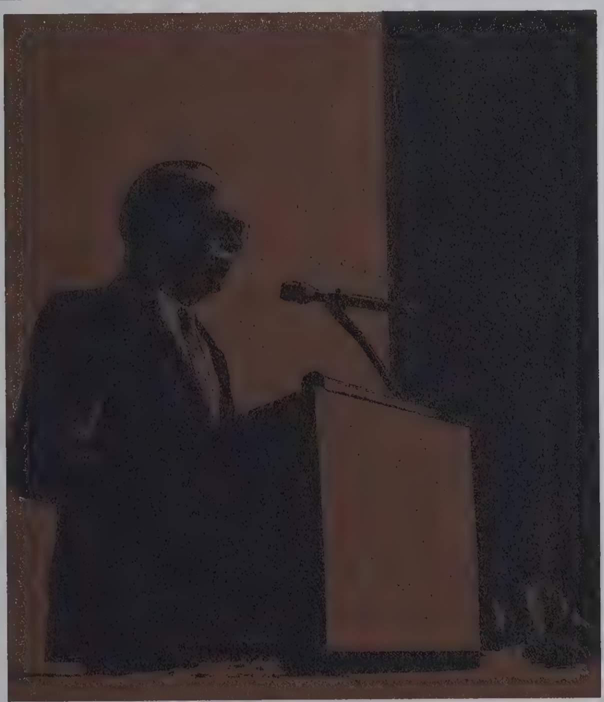
Occidental Petroleum Corporation, 10889 Wilshire Boulevard, Los Angeles, California 90024

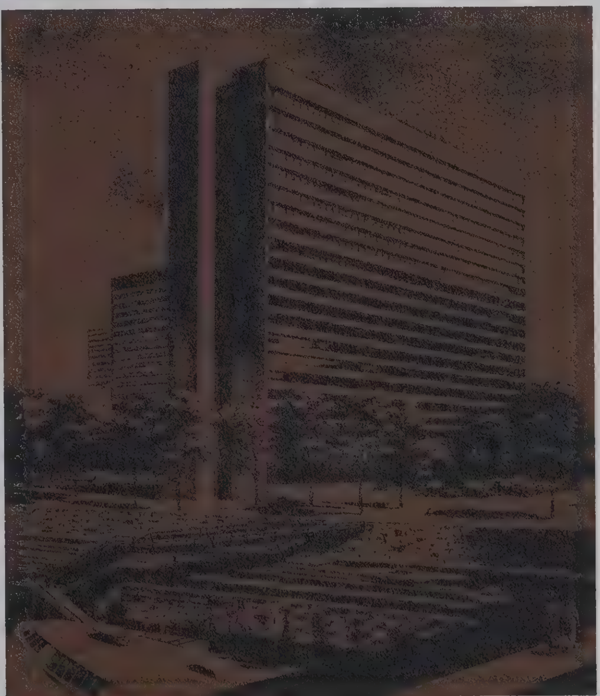
AR18

Presentation
before the
New York Society
of Security Analysts

15 William Street
New York, New York
September 12, 1973
7:00 p.m.

Occidental Petroleum Corporation





Occidental Petroleum Corporation

The Occidental Petroleum Corporation management presentation before The New York Society of Security Analysts was held at 15 William Street, New York, NewYork, on Wednesday, September 12, 1973, commencing at 7:00 p.m., with Robert Drayton, Jr., chairman, presiding.

Robert Drayton, Jr.: Good evening, ladies and gentlemen. Welcome to the Occidental Petroleum Corporation management presentation. As chairman of this meeting I will begin by introducing the members of our society and guests seated at the head table. On my extreme left is Jack Linder of Josephthal & Co. followed by Francis W. Theis, head of Occidental's chemical division; Andrew Gray, III of Pershing & Co., Inc.; Donald M. Morgan, Occidental's financial vice president; Laszlo A. de Mandy of Oppenheimer & Co., and W. Marvin Watson, executive vice president for corporate affairs of Occidental and executive assistant to the chairman of the board.

On my extreme right is Kenneth E. Hill of Blyth Eastman Dillon & Co. followed by Albert Gore, chairman of the board of Island Creek Coal Company; Joseph S. Clark, Jr., of Wertheim & Co., Inc.; Robert J. Caverly, executive vice president for operations of Occidental and executive assistant to the chairman of the board, and Dillard P. Spriggs of Baker Weeks & Co., Inc.

Our speaker this evening is Dr. Armand Hammer, president, chairman of the board and chief executive officer of Occidental Petroleum. Dr. Hammer began his long and distinguished career helping to expand a small pharmaceutical firm while still a student at Columbia Medical School.

He went to Russia at a time of famine rather than wait to begin his internship and traded American grain for Russian products. He also established a very successful export-import business and became the representative for 38 American manufacturing companies. This capitalist entrepreneur owned and operated the first pencil factory in the heart of communism. He sold his enterprises to the Russian government in 1930, purchased many Czarist art masterpieces and returned to America to form the Hammer Galleries in New York City.

Dr. Hammer next turned a $100,000 investment in potatoes into $7,500,000 by producing blended whiskey and commercial alcohol early in 1940 when whiskey was in short supply in America. He has also made fortunes in the livestock feed and cattle businesses. He held the nation's first million dollar purebred Aberdeen Angus cattle sale.

He got into the petroleum business in 1957 by lending Occidental Petroleum the money to drill two wells. At that time, the company had eight depleted oil wells and a market value of $120,000. Both wells were successful and the rest is history. Today, Occidental Petroleum is a large international company producing oil, gas, coal, fertilizers and agricultural chemicals, industrial and specialty chemicals, metal plating and plastics. It is a privilege and a pleasure to introduce Dr. Hammer.

Dr. Armand Hammer: Thank you, Mr. Drayton. Members of the New York Society of Security Analysts and invited guests, I appear before you in the role of a communicator. We know that communication sometimes is influenced by a point of view. For example, Mark Twain, in his immortal description of his boyhood fight with the village bully, said, "Blocking his fist with my eye, and thrusting my nose firmly between his teeth, I threw him heavily to the ground on top of me." Tonight, I assure you I shall not emulate Mark Twain.

I was told to be sure and be frank with you gentlemen and give you bad news as well as good news. This reminded me of the pilot of a small foreign airline who announced over the loudspeaker, "Ladies and gentlemen, I have good news and bad. The good news is we are 40 minutes early. The bad news is, we are lost." I am glad to say, we have nothing but good news to report tonight.

It has been almost five years since Occidental Petroleum Corporation last appeared before you gentlemen. The years that followed after our November, 1968, meeting have been eventful ones for Occidental in which many outstanding developments took place, as well as a number of difficult and challenging problems.

In 1969 and 1970, we had the two most successful years in our company's history. 1971 was the only year in which our company lost money. In 1972, we had a modest operating profit but a small per common share loss after payment of preferred stock dividends. These losses were suffered after 13 years in which our earnings increased substantially every year. However, in Wall Street, as well as throughout the nation, the financial community has a tendency to only look at the losses.

We are not here this evening to look back at events beyond our control such as the revolution in Libya and its consequences. However, we do want to remind you of our growth from a company in 1956 with a net worth of $36,000 to one with a net worth today approaching $900 million. This is an average compound growth rate of more than 90 per cent per annum over the past 15 years.

To put this in perspective, if this growth were maintained, our economists tell us that by 1990 our net worth would be more than the entire national wealth of the United States. To relieve your anxiety, however, we do not believe that this rate will continue, at least not for the next 15 years. But we do expect to become as profitable in the near future as we were up to and including 1970.

Let me explain how we make this approach toward future profits, and how we have handled the problems that have beset us in recent years.

Our first problem was the obvious one, Libya, and the need to find other sources of crude oil. We picked four major basins to explore; namely, Venezuela, Peru, Nigeria and the North Sea. We reasoned that if we could create a contract that could fit the nationalist aspirations of the host

countries, we would avoid the spectre of nationalization.

So, we devised a new and different type of contract. We didn't call it a concession. In Venezuela, we called it a service contract, and in Peru, an oil-sharing contract. In Nigeria, we formed a company and gave Nigeria's national oil company 51 per cent immediately, although we remained as operator. In the North Sea, we didn't have to devise anything, but followed the usual pattern of the old concession agreement. We selected the North Sea as the most stable area to explore, and I might say the place that had the most competition.

Lastly, we decided that, no matter what, we would try to keep on producing in Libya and, by running the most efficient operation in that country, try to win the confidence of the new revolutionary government and convince them that they needed us.

Well, a lot of people thought this plan we had for improving our crude oil position throughout the world was a pipe dream. When we started after these four concessions, a banker told me, "If you hit in one out of four, you'll be doing well. If you hit in two out of four, it'll be a miracle. Three out of four or four out of four is totally impossible!"

I'm sure some of the analysts present said, "Oh, that Hammer, what a pipe dream." Well, I don't want to rub it in, but here is the box score. We did the impossible. We're batting one thousand. We hit on all four!

Libya has paid us $135 million in cash for 51 per cent of our holdings there. This money has already been received in Libya and was deposited in our bank account on August 11th. It is available to meet all our obligations to the Libyan government and we have already expended a good portion of it for that. Our taxes and the money we are spending in buying back the oil produced in the 51 per cent of our concessions now owned by the Libyan government is equivalent to about $2 million a day. At that rate, the $135 million won't last very long. But just to be on the safe side, we provided in our contract that if, at the end of nine months, we have not expended this $135 million in dinars, which is better than many other currencies, the Libyan government gives us the automatic right to transfer any unexpended balance out of the country.

We have continued to produce oil in our Libyan fields and have the right of first refusal to purchase the government's 51 per cent share. The price for the first six months was fixed at $4.90 a barrel. You may recall the hue and cry that this was such a high price. Well, for your information, it is a low price today, and only a month has gone by.

Because of the clauses in our long-term contracts, we expect to make about as much out of our 49 per cent as we did out of our 100 per cent before we sold the 51 per cent. Also, the Libyan government has increased our oil production by more than 40 per cent from 335,000 to 475,000 barrels a day.

Dr. Armand Hammer listens to a question from the floor after he and other Occidental executives completed their prepared remarks before the more than two hundred representatives of investment banking and brokerage firms, banks, insurance companies, mutual funds, investment advisory services, pension funds and other institutions at a dinner meeting of The New York Society of Security Analysts.

Oil, of course, is not the only natural resource in which we are involved. We also produce natural gas, coal, chemicals, fertilizers and sulphur. All these play an important role in the Occidental picture.

Coal has been a problem for us just as it has been a problem for everyone else. But we decided to do something about it. We all know that the present mine safety law causes every deep mine operator to pay out many dollars in increased costs. Some of our customers, the public utilities companies, refused to recognize that all of the increased costs due to the Health and Safety Act, as well as lowered productivity, gave legitimate cause for increasing the price we charged them for this coal under the escalation clauses in our contracts. We sought out an experienced negotiator. I am happy to say he is here tonight—my good friend and fellow cattle breeder, Senator Albert Gore. He is now chairman of the board of Island Creek Coal Company, and he has done an outstanding job in renegotiating our contracts with the public utilities.

Like other coal companies, we are now experiencing occasional wildcat strikes, but we think that our government

and the courts will do something about this, and we hope the labor unions will cooperate knowing that coal is one of the best hopes this country has of combating the energy shortage we all worry so much about.

Chemicals is another area we've managed to bring back. Like every chemical company, our chemical division has had its problems in the past four years. You will hear tonight what a great turnaround this division is making.

When things were going so well for Occidental back in those golden days when we were the darling of Wall Street, we took some calculated risks. The discovery of oil in Libya, of course, was the touchstone that shot us forward as a great independent and helped make us the tenth largest oil company in the world. We knew this was the time to diversify, and that it would not be good to have all our eggs in one basket. We used our discovery in Libya as the leverage which helped us to acquire other natural resource companies.

Libya gave us the multiples in our stock that enabled us to acquire Island Creek Coal Company, the third largest coal company in the United States with about four billion tons of coal reserves. Then we acquired Hooker Chemical Corporation, tenth largest chemical company in the United States. Later we bought Signal Oil's European refining and marketing complex which made it possible for us to market our Libyan oil so successfully.

Of course, a marriage by merger has its problems. Our marriages, however, have worked, but we have had to teach the brides a few things. We had to dispense with some of the executives and directors we acquired who did not meet our standards of performance and conduct. Compatibility did not come overnight, but it has arrived, and you will hear more about it later.

There are a number of other areas I'd like to get into, but in the interest of time and since our executives are here to speak to you about their own operations, I'll touch only briefly on another matter—our dealings with the Soviet Union.

I know that many of you have not understood all the ramifications of this. I am sure some of you have said, "This is another case of Hammer and pie in the sky." Well, my friends, I hate to disappoint some of you, but I think it is going to be a sweet dessert and one which, I believe, will add to Occidental's stature among the multinational companies.

In July, 1972, two months after Mr. Nixon and Mr. Brezhnev signed their summit agreement in Moscow, I was invited by the Russian government to come to Moscow. I went there with a whole team of our executives on a fact-finding mission. However, after we were there for a week, Mr. Gvishiani, deputy chairman of the Committee for Science and Technology, presented us with a draft of a trade agreement. Trade agreements are usually made between governments.

I guess this was the first time that a private company had been offered a trade agreement by the Russians. It covered five areas. It was written in the Russian language. I read it through, and it sounded fine to me. I took out my pen and, even though it was only intended to be a draft, I crossed out the word "Draft," signed it and handed it back to Mr. Gvishiani. He was taken aback and said, "Don't you want to show it to your lawyers?" I said, "I read it. It is satisfactory, and something I believe we can work under." I then handed him the pen to sign it. He hesitated for a few minutes. He had a quick little consultation with his aides and said, "All right, we will sign it." That was the beginning of our present business in Russia.

This agreement covered five areas. One was metal-finishing. This is a business that one of our subsidiaries in England had already been doing with Russia and consists of supplying metal-plating equipment and chemicals.

Every car built in Russia, they tell me, has about two dollars worth of nickel plating or chrome on it that is supplied by our subsidiary, The Udylite Company of Warren, Michigan, and two Oxy Metal Finishing companies in Britain—Oxy Metal Finishing (Great Britain) Limited and Oxy Effluent Control Ltd. Under our new trade agreement, we made a deal for $80 million over five years under the terms of which we would supply them with $40 million worth of metal-finishing equipment and supplies, and in return we would purchase from them $40 million worth of nickel, which we have need for in this country. This agreement is in full force and effect and is working very satisfactorily.

The next area was chemical fertilizers. Here, several months of negotiating were required. Every month, I went back to Russia by company plane. Then finally, in April of this year, we signed what was reported by TASS, the Soviet news agency, as an $8-billion fertilizer deal. The agreement, which is being implemented by detailed follow-up contracts, contemplates that, over a period of 20 years, the Russian government will purchase annually approximately $150 to $200 million worth of phosphates which we will produce from our present phosphate mines in Florida, and we will purchase an equivalent value of ammonia, urea and potash in return. Our phosphates will be produced in a highly concentrated form known as superphosphoric acid (SPA) in order to save shipping space and costs.

By this means, instead of having four ships carrying phosphate rock and one ship carrying sulphur, we will be able to supply the same quantity of phosphate in one ship. There will be specially designed tankers which will carry this highly-concentrated superphosphoric acid. When this

Several days after Occidental's meeting with the New York Society of Security Analysts, the U.S.S.R. and Occidental signed an agreement to construct an international trade center in Moscow. Shown signing the pact are, seated, Boris A. Borisov, left, president of U.S.S.R. Chamber of Commerce and Industry, and Dr. Armand Hammer, chairman of Occidental. Standing, l. to r., A. P. Belov, chief of foreign law section, U.S.S.R. Ministry of Foreign Trade; M. L. Gorodissky, chief of patent department, U.S.S.R. Chamber of Commerce and Industry; Anatoly Dobrynin, Soviet ambassador to the U.S.; A. K. Pavlenko, general director, Moscow international trade center; Willard Butcher, president, The Chase Manhattan Bank, and Angelo Leparulo, assistant to Occidental's chairman for science and technology.

product arrives in Russia, all that will have to be done is pipe it to the city of Kubyshev where there will be a large fertilizer complex which we will help build. Some of the superphosphoric acid will go to the Baltic port of Ventspils and some to the Black Sea at Odessa. It will be mixed with potash and nitrogen to form the usual chemical fertilizer mix which consists of phosphates, nitrogen and potash. Russia has plenty of nitrogen and potash, but is short of phosphates.

The products we are to buy in return are mainly ammonia and urea which are made from natural gas. Russia has a surplus of natural gas. Our country, as you know, has a deficiency of natural gas. So, this transaction will have a favorable effect on our balance of payments and also help the farmers of this country because of a critical shortage here of ammonia and urea fertilizers.

Just today, Dow Jones carried a report that the Bank of America and a group of banks which the Bank of America has put together have made a commitment to give the Russian government a credit of $180 million to finance

construction of the fertilizer complex in Russia which is part of the project. There will be a matching credit for which a commitment has been made by the Export-Import Bank (Ex-Im) for an additional $180 million. The Russian government will put up 10 per cent because the total financing requirement is $400 million. Occidental will purchase ammonia and urea produced from the new plants plus some potash so that Russia can generate the foreign exchange necessary to cover its financing costs.

In the field of natural gas, which is the third of these five areas mentioned in our trade agreement with Russia, we have joined with El Paso Natural Gas Company in signing a letter of intent with the Russian government to negotiate the purchase of liquefied natural gas from the U.S.S.R. Much of this gas will be imported to the west coast of the United States. Some will go to the Japanese, as this gas will be divided between the United States and Japan. It will require a certain amount of financing which I believe will be satisfactorily worked out again by the Ex-Im Bank and the Japanese counterpart of the Ex-Im Bank.

George P. Schultz, U. S. Treasury Secretary, is in Japan at present and undoubtedly discussions are going on there right now. There will be a delegation from Russia due here in October. We will meet in Houston with El Paso Natural Gas Company and I hope that our protocol of intent will be implemented and pushed forward. This transaction is potentially even larger than our chemical fertilizer deal and could, at present prices, amount to approximately $10 billion over 20 to 25 years.

The fourth area of our trade agreement concerns the building of an international trade center in Moscow. This is a project which will cost the Russian government $110 million. Occidental has been given primary responsibility for assisting the Russians in building this trade center. We expect that Bechtel Corporation, in a joint venture with our Garrett Research and Development Company, will do the construction.

We have a letter of intent signed, and the gentleman who signed it on behalf of Russia is our invited guest here this evening. He is B. A. Borisov, one of the most important men in the Soviet Union. Mr. Borisov is chairman of the Russian Chamber of Commerce and Industry and is responsible for most of the building activity currently in progress in the Soviet Union. (At this point, Dr. Hammer introduced Mr. Borisov to the assembled guests. Dr. Hammer then continued.)

The last of the five areas in our trade agreement with Russia concerns solid waste disposal. This project involves the conversion of garbage into oil. We started it several years ago, and built a pilot plant which is working very well. We have now received our first order from the County of San Diego, California, for a demonstration plant. This project is partly financed by the federal government and the County of San Diego.

Gentlemen, those are the five areas covered by our trade agreement. That doesn't mean we are limited to those five areas. I can assure you that we have other projects in various stages of consideration, some of which I hope you will read or hear about in the near future. Anyone who thought our trade agreement with Russia would not amount to very much has been sadly mistaken.

Normally, we don't announce earnings other than quarterly earnings. However, since some of you have indicated interest in our earnings to date, we have asked our financial people to give us the actual figures for the first seven months of this year, and also to give us what we call our flash report for the month of August.

These flash figures are compiled over the telephone from each of our divisions, and we have seldom known them to be out of line to any great extent. As a matter of fact, they are usually on the conservative side. They tell me that our net income for the month of August will be about $6.3 million. By comparison, we had a loss of $900,000 for the month of August, 1972.

Our net income for the first seven months of 1973 is approximately $46 million compared to a $6 million loss in the same period last year. Considering that the third quarter is historically our softest, you can readily understand how pleased we are with these figures, and we feel it is quite a turnaround. We have every reason to believe that the rest of the year will show continued good earnings and we think this is definite proof that Occidental has turned the corner and is now on the way up.

You have noticed that, throughout this talk, I have used the word "we." When I say "we," I mean all the hardworking executives we have in this company. I know that some people say, "Well, Occidental is a one-man show, it is all Dr. Hammer."

Gentlemen, nothing can be further from the truth. I know many people also wonder what will happen to Occidental when Armand Hammer retires. Frankly, I think the company will work just as smoothly. We have made some management changes and I have restructured the office of president. I searched for two able men in whom I could repose total confidence, men with the courage to make decisions and with the confidence to say "no" when the necessity arises.

One will be the next speaker, W. Marvin Watson, who is known to many of you and who is our executive vice president for corporate affairs and shares the office of the president as my assistant. The other is Robert J. Caverly, who is our executive vice president for operations and who

A news conference was held in New York's Waldorf-Astoria Hotel to announce an agreement between the U.S.S.R. and Occidental to build an international trade center in Moscow. At the dais, l. to r., Dr. Armand Hammer, Occidental's chairman; Boris A. Borisov (at microphone), president, U.S.S.R. Chamber of Commerce and Industry; V. V. Osipov (behind Mr. Borisov), protocol officer, U.S.S.R. Chamber of Commerce and Industry; Anatoly Dobrynin, Soviet ambassador to the U.S.; Willard Butcher, president, The Chase Manhattan Bank; Angelo Leparulo, assistant to Occidental's chairman for science and technology; Richard Grambow, vice president, Bechtel International; A. K. Pavlenko, general director, Moscow international trade center, and T. M. Boltovsky, chief of the construction department, Moscow city council.

also shares the office of president as my assistant.

Marvin Watson has had a distinguished career. He started as a professor in economics. Many of you think of him as a politician, but, believe me, he's a good businessman as well. He helped build up Lone Star Steel Company which had to make an uphill battle to set up a steel industry in Texas and succeeded beyond everyone's expectations. Then ex-president Lyndon Johnson and the former governor of Texas, John Connally, both close friends of Marvin, took him to Washington where he became the chief of staff to President Johnson and then finally a member of the president's cabinet as postmaster general.

Robert J. Caverly has also had a distinguished career. He started with Conrad Hilton and built up the international chain of Hilton hotels all over the world. Mr. Caverly then organized and headed up the Carte Blanche credit card company for Hilton and sold it for a good price to the First National City Bank. Following that, C. R. Smith took him into American Airlines where he was president and chief executive officer of Sky Chefs. Finally, when Howard Hughes got into trouble in Las Vegas, he sent for Bob Caverly who operated the Hughes empire in Las Vegas. Somebody told me about Bob, and I managed to get him to leave Howard Hughes and come to Occidental—no easy task.

I will have Marvin speak first. He will introduce Bob Caverly when he finishes. Then you will hear from Don

W. Marvin Watson, executive vice president for corporate affairs and executive assistant to the chairman of the board.

Robert J. Caverly, executive vice president for operations and executive assistant to the chairman of the board.

Morgan, our vice president for finance who had this position with Fluor Corporation for some 30 years, and from Jack Dorgan, our new treasurer, who was formerly treasurer of Continental Oil Company.

When they finish, each one of our chief executives will come to the dais and talk for about five minutes each, after which we will open the meeting for questions from the floor. I thank you.

W. Marvin Watson: Dr. Hammer, Mr. Chairman and ladies and gentlemen. Before joining Occidental, there was something interesting we did as part of our function at the White House. We always tried to sing a song when we arrived in the morning—"Let's make today better than it was yesterday." When I joined Occidental, I found Dr. Hammer singing that same song every morning, but he added a second song entitled, "Nothing can go wrong." It is a great pleasure to work in an atmosphere where things are moving.

As you, later on in the evening, meet our managers, all of our managers, you will notice that some have gray hair. Just a few years ago they were more youthful. But working for Dr. Hammer requires double time to keep up with him. We think he's aging his executives while getting younger himself. If this analysis is correct, one of these days we'll probably all wind up being the same age.

Occidental has three outside directors. We don't consider them outside in any sense of the word because they are hard-working and are deeply involved in the activities of our company. They attend our quarterly two-day management seminars as well as those board and committee meetings which are a regular part of our schedule. I would like you to know about these men.

First, there is Herman Vail, senior partner in the Cleveland law firm of Sayre, Vail & Steele and the retired president and director of Forest City Publishing Company, which publishes the Cleveland Plain Dealer. Mr. Vail has had a distinguished career in both business and public service. And it means very much to us to have his wise counsel.

Second, a man known to most of you, Dr. Neil Jacoby, who has served two presidents of the United States. Dr. Jacoby has been our country's representative on the Economic and Social Council of the United Nations, in New York and Geneva; a consultant to the board of directors of the Federal Reserve bank system, and former dean of the Graduate School of Management at the University of California at Los Angeles.

Our third outside director is Arthur Groman, senior partner of a major Los Angeles law firm and co-founder of the Tax Institute of the University of Southern California Law School. Mr. Groman is a graduate of Yale Law School. He has served in the general counsel's office of the Treasury

Department and as an attorney for the Internal Revenue Service.

Another of our directors who is not scheduled to be on the program tonight—an inside director and, I must admit, very much an inside director because he's also our corporate secretary, Paul Hebner. I expect most of you know Mr. Hebner, who had his own distinguished career in the oil business before he joined Occidental. Mr. Hebner, incidentally, was one of the original three employees hired by our chairman, and we now know that that was a very wise decision.

With the reorganization of the office of the president, Occidental is working as a cohesive unit, with a strong interchange of ideas and expertise. Now, profits and the success of our plans prove that this has made for better management. In the future, you can expect us to become a more important figure in the international natural resources business. We'll maintain a good balance in our investments inside and outside the United States. This will be achieved though internal expansion, acquisitions and working agreements throughout the world.

Currently, we are actively seeking opportunities in other countries, and we believe that we have assembled, around the world, a team that can accomplish these purposes. Our management authority obviously rests in the stockholders, our board of directors and our executive committee of the board whose members are Dr. Hammer, Dr. Jacoby, Arthur Groman, Paul Hebner and myself.

We have also instituted a corporate management review committee which meets very frequently and consists of Dr. Hammer, Bob Caverly, Paul Hebner, Don Morgan, Jack Dorgan, Ron Casriel, our controller, and myself.

Each quarter, Bob Caverly presides at an assembly of all our key executives for a two-day management seminar, where we receive up-to-the-minute reports on all developments as well as join together in perfecting plans for the future. We are finding this to be a very effective opportunity for management. We have a goal at the corporate level of management. We have, and we desire to maintain, a very lean, hard-hitting corporate staff.

There have been made a number of other changes in our managerial structure and in our reporting systems, aiming to achieve better controls and more immediate reports, particularly reports of problem areas that may be developing. In the future, we will be able to avoid such problems as that which we had with our tankers.

For the past 18 months, those of us based in Los Angeles have dedicated ourselves to carrying our influence beyond the ordinary activities of budgeting and financial control. We believe that our role is to be in close contact with the divisions, that our function is to identify problems and assist in solutions. This is management by exception, focusing on the unusual events, moving immediately to correct the problems while creating a management structure and philosophy capable of maximizing opportunities.

It also means that we have to be flexible enough to adapt to sudden opportunities. Because, as a company, we have more big deals suddenly available than most. But, with this new management concept, we find ourselves capable and able to adapt quickly, to be flexible enough to react and expert enough to keep the profits and the growth in a continuing upward trend, at the same time conducting our business under the same brilliant philosophy and guidelines that have given us such growth. That is, if a division is running well, if it is meeting its plan, we give it plenty of running room. We are not the type of company to over-manage or to harass good management. But we now have a corporate setup that lets us react very quickly when we see a red flag. I think the profits announced tonight give you a better example of how well this works, better than any words I may use.

One such evidence of what this kind of management means comes from the fact that we are approaching a time when retained earnings will allow consideration of restoring the common dividend. Now, I'll not make a projection on the time frame, but I am very encouraged.

In this room tonight are the top managers of Occidental. They will speak for themselves. When they speak, you will see the Occidental turnaround was not an accident. It has been a well-planned, well-executed achievement which has moved the company through a transition stage and into a position where it is now ready to be permanently accepted as a major American corporation. From here on, I predict things will only get better. I am pleased to be a part of the opportunity and the challenges that our company gives to its employees and executives.

Bob Caverly shares the office of the president with me. He is executive vice president for operations, and he is also an executive assistant to Dr. Hammer. But, further, he is a considerate and capable executive. He is also my associate and my friend.

Robert J. Caverly: Dr. Hammer, ladies and gentlemen, I thought I'd just take a few minutes to talk about the day-to-day operations of Occidental.

As a member of the office of the president, I report directly to Dr. Hammer. I am basically responsible for the day-to-day operating results of the company. This involves a number of corporate staff departments, as well as the operating divisions.

Dr. Hammer, Marvin Watson and I are in frequent communication daily. We keep well-informed on all matters which require the attention of the office of the president.

Basic operational controls and communications and various operating locations are based on our annual operating plan and capital budget for each division. This includes detailed estimates of income, expenses and operating profit.

The capital budget is based on a detailed analysis of operating division recommendations for replacements and improvements to existing facilities and for new plant and equipment. The operating divisions are required to prepare these estimates in detail, setting forth the need for replacements and additions in terms of cost improvement or elimination of obsolescence.

As to business opportunities for contemplated new product lines or enterprises, recommendations for capital expenditures must be supported by a detailed analysis of return on investment, where such can be calculated, or a detailed justification for expenditure on the basis of elimination of obsolescence or reduction of cost.

The operating plan and capital budgets are prepared by each division in preliminary form in the fall of each year for the next succeeding three-year term. After review by a corporate staff group, the three-year plans are discussed in detail with the operating executives of each division. There is considerable give-and-take in this process, particularly to make sure that the total capital expenditures which ultimately can be approved for each division are fitted into Occidental's ability to meet the total capital requirement.

Searching questions are asked about substandard operating results. Operating executives work toward mutual agreement as to next year's plan and budget. Once the three-year plan is worked into shape on this basis, each operating division is required to prepare a very detailed one-year plan for the next succeeding year. The time schedule requires that this detailed one-year plan plus the more generalized second and third years of the three-year plan and budget be submitted first to Occidental's management review committee, then to the executive committee, and finally to the board of directors in October or November.

The timing for this effort is to have everything approved and finalized well before the first of the year so that the operating divisions can make their purchasing, staffing and other commitments to implement their operating plans for the year. Once the over-all capital budget for the next year has been approved, the operating divisions are authorized to start engaging engineering services, execute purchase commitments and other steps necessary to accomplish the plan's goal. This procedure is set up in such a way that we do not undertake substantial engineering or other expenditure commitments until the specific capital budgets for all divisions have been approved all the way through the board of directors.

Operating results, as well as capital commitments, are reported through Occidental's controls office on a newly-developed standard reporting system. We have preliminary figures by the fifth working day after the end of each month, for that month and cumulative year-to-date. We have final figures by the 15th working day after the end of the month.

The reporting system also provides an updated outlook of operating results at the same time based on year-to-date experience plus changing conditions as observed and analyzed by the operating executives of each division. That update also includes our capital expenditure commitments. If it looks like we have overruns, we try to catch them as soon as we can.

We constantly review operating results as well as situations which can arise on an almost daily basis. We're in daily communication by telephone with the principal operating executives of each division. When it appears that a member of corporate staff can assist with a problem or help to improve profits or reduce costs, he is immediately sent to the operating location involved.

Occidental's total corporate purchases involve many hundreds of millions of dollars annually. Each division does its own purchasing on the basis of approved annual plans. We do have a small purchase coordinating group that works with each division to improve purchasing, receiving and control procedures and help find ways to get better prices for major purchase items.

Marvin Watson mentioned our quarterly management meetings. I think you might be interested in the format. Each operating division makes a detailed presentation of its operations or a particular project it wishes to discuss with all of the assembled executives of Occidental. Then each of the other operating divisions is required to make a brief presentation of its current operating results and any developments which may be of general interest throughout the corporation. This works into a kind of general brainstorming session in which we exchange information, and the executives learn more about each other's problems and businesses which contributes to further improvement of operations.

These meetings are attended by the chief executive officer of each division and a few key members of the staff. Dr. Hammer and the entire board of directors plus key members of the corporate staff also attend.

The quarterly management meetings are followed by a meeting of the board of directors, and we feel that, in spite of the widespread geographical location of our company and the small staff at corporate headquarters, we are a well-unified and well-communicated organization, and that our operations are coordinated in the best manner possible.

I have been in some pretty exciting activities in my previous business career, but I must say that my association with Dr. Hammer and Occidental has been, by far, the most

exciting that I can possibly think of.

W. Marvin Watson: At this time, our speaker will be the company's vice president-finance and chief financial officer, Don Morgan. Before joining Occidental, Mr. Morgan was with Fluor Corporation for 30 years as controller, treasurer and financial vice president. We are happy that he is now a member of Occidental's management team.

Donald M. Morgan: Before discussing the financial structure of Occidental Petroleum, I will comment briefly on the financial organization. Each of the operating divisions has its own controller staff performing the normal accounting functions. Divisional controllers are functionally responsible to corporate controllers in the fulfillment of their duties. The treasurer function throughout the organization, for the most part, is carried out by the corporate treasury department which includes the European treasury group, banking, cash management and financing. Whether in the name of the parent company or one of the subsidiaries, these functions are either directly performed by, or closely coordinated with, the corporate treasurer.

I am very pleased to be associated with a natural resources company with assets in excess of $2½ billion. I am also pleased to consider some of the improvements in the financial position of this company during the current year.

Donald M. Morgan, vice president-finance.

At the close of 1972, senior funded debt was $870 million. Equity was $830 million. Thus, this debt was 105 per cent of equity. At the close of 1973, the senior funded debt will be about 80 per cent of equity.

At year end 1972, we had cash and unused committed lines of credit totaling $250 million. At year end 1973, we expect that cash and unused committed lines of credit will be in excess of $400 million.

We recognize that we do have substantial debt maturities for the next three years and then decreasing in subsequent years. We are indeed fortunate to have Jack Dorgan as our treasurer. We have determined a preliminary financing plan for the next three years. As the years develop and specific conditions and needs become closer in time, we will implement financing plans with such modifications as may be advisable to improve our basic plan.

One of the underlying premises in arranging new financing has been, and will continue to be, to stretch out maturities. This was accomplished in the $105-million Hooker Chemical financing completed last June. It is a 20-year loan with no maturities during the first five years. Blyth Eastman Dillon and A. G. Becker worked with us in this particular financing.

Last Monday, we signed a $25 million loan with a group of Japanese banks. Closing and take-down of funds will be next Tuesday. This loan was arranged by Daiwa Securities and the Bank of Tokyo in conjunction with Blyth Eastman Dillon. The loan has an eight-year maturity with no principal payments during the first six years. Another financing, in the preliminary planning stage, is a large Eurodollar issue with probably a seven or eight year maturity.

We are also structuring a loan plan for Occidental Land, Inc., a nonconsolidated real estate facility with assets of $150 million and debts of $22 million. Substantial initial debt should be raised against these assets. Other sources of financing are coal production payments and roll-over of revolving credits as they mature. We currently have $163 million of unused committed revolving credit, and this figure will increase before year end.

In addition to debt maturities, Occidental has ambitious expansion plans. Some of these are the Canvey Island refinery, superphosphoric acid facilities, expansion of our chlor-alkali production and facilities and ships needed in conjunction with our Russian projects. We expect to finance these projects essentially off balance sheet. Also, we are arranging to provide for the exploration and development of our oil and gas reserves in the North Sea, Nigeria, Peru and Venezuela.

To help meet these needs, we are aggressively developing project financing concepts and arrangements. In project financing, the financial obligation will be borne by the project economics and structure without requiring financial

John J. Dorgan, vice president and treasurer.

guarantees from Occidental. Oil and gas programs will be financed in part by accepting partners who will assume exploration costs and financing for development costs. We will also work on advance payments for oil and variations of production payments.

In summary, this year will reflect substantial improvements in our financial position. We are aware that our financing requirements pose interesting challenges. With anticipated improvement in earnings and cash flow, we are confident of having a satisfactory financial path through the next three years. We plan to improve it further as the years unfold. As we move through these near-term years, we will begin to receive the benefits to be derived from current and foreseeable plant expansions and oil and gas discoveries and development.

W. Marvin Watson: Our next speaker is the treasurer of Occidental Petroleum. He was with Continental Oil Company some 23 years. He served as treasurer of that great company. Then he joined Occidental and was in charge of our large Belgium refinery and its marketing operations. Dr. Hammer found him there, doing an excellent job. Because of his prior experience as treasurer of Continental, we knew that he would do a good job for Occidental. He has not disappointed anyone.

John J. Dorgan: I am going to add a few words to what Don Morgan said about project financing. We have a number of important projects which lend themselves to a form of financing in which the project itself provides the basic credit for the financing.

We have four such financings under way at present. The largest of these is the Canvey Island refinery in the vicinity of London, England. This is a $150 million project which will have a capacity of 125,000 barrels a day. We expect to start up by early 1976. Occidental is sure the refinery need in Europe will grow and the new refinery will help to meet these growing requirements. And we also need this refinery to process North Sea crude.

This brings us to the second major project-type financing: the Piper field in the North Sea. The total development cost of the Piper field is estimated to be about $280 million of which Oxy's share would be about $100 million. Occidental and our three partners are currently examining various ways of financing this project. We are looking at production payment-type financing, lease financing and pipeline throughput financing. The development period will extend into mid-1975 when production of the field is expected to begin.

Turning to projects in this part of the world, we have two important facilities—a phosphate chemical complex in Florida and a chlor-alkali plant in Louisiana. The phosphate chemical plant will produce a variety of phosphate fertilizers. The estimated cost of these facilities is $53 million. We have already received preliminary commitments covering 100 per cent of the estimated project cost.

The chlor-alkali plant at Taft, Louisiana, is expected to cost about $63 million. Much of the output of this plant is already sold under long-term contracts to major users of chlorine and caustic soda which is an important aspect of obtaining project financing.

W. Marvin Watson: Our next speaker is the head of Oxy Chemical Corporation. Many of you will remember that as the Hooker Chemical Corporation. He was the chief executive of a subsidiary of Pittsburgh Plate Glass Company. More recently, he was head of a subsidiary of Celanese Corporation. His last assignment before joining Occidental this year was with International Paper Company.

Francis W. Theis: I have tailored my remarks to respond to a number of questions that I was informed many of you have asked about the chemical operations of Occidental.

The chemical division is composed of the Hooker Chemicals and Plastics Division, the Oxy Metal Finishing group and the Agricultural Chemicals group. With the current rate of operating earnings for 1973 and the continuing outlook for the division, I anticipate the earnings would be substantially above last year. Sales are also projected well above last year. The increase in profitability of this division over the last two years is a result of the definite improve-

ment in all the market areas of the division, both in terms of volumes and prices.

As I am sure you all know, the long downtrend in the cost of basic industrial chemicals has stopped. The current supply-and-demand situation throughout the world has permitted the industry to put through price increases to bring prices at levels which will justify increased capacity for most of the products produced by this division.

The earnings history of the division on a pro forma basis for the past six years shows that 1967 was the peak-earnings year while 1971 was the lowest level. The earnings outlook for 1973 is well above 1967. Sales are projected greatly above 1967.

The division product areas are electro-chemicals, specialty chemicals, plastics, Ruco polymers and coated fabrics, agricultural chemicals, metal-finishing chemicals and equipment and international operations. With the exception of the Ruco division, the smallest of these product areas contributes about 10 per cent to the earnings of the division while the largest product area contributes about 30 per cent.

The Ruco division, which consists primarily of polymers and coated fabrics, is currently in a break-even position. That reflects a substantial turnaround in that division over the last two years. All the product areas, including the Ruco division, show continued promise of good, solid earnings growth.

We recently formed a joint venture with respect to our zinc-chloride battery development with Gulf & Western Corporation. The venture is dedicated to the continuing development of the battery through a development program estimated at about $10 million over a period of several years.

We believe there is a large market potential in the application of this battery for automobiles, load-leveling for power stations and for various off-the-road-type vehicles. Several national research institutes have studied this development and share the views of Occidental and Gulf & Western concerning the potential of this project. It is still, however, in the development stage.

In addition to the expansion in the chlor-alkali area and in agricultural chemicals, which Jack Dorgan talked about, product demand in the other areas of the division is supporting expansions planned for the future which will not only increase the level of profit but, more importantly, will improve the return on the total capital used by the division.

W. Marvin Watson: Our next speaker heads our agricultural chemical division. As Dr. Hammer explained in his own remarks, much of our future opportunity rests in the SPA project and the furnishing of this product under our Russian contract. This gentleman will be responsible for executing these contracts that Dr. Hammer was fortunate enough to have made with the Russian government.

A. P. Gates, president of the Occidental agricultural chemical group.

He has been in the chemical business for 23 years. Seven of those years have been with Occidental. The other 16 years were with Virginia-Carolina Chemical and Mobil Chemical Company. He came to Occidental well-trained.

A. P. Gates: Dr. Hammer commented on the arrangement that we have with the Soviet Union for superphosphoric acid, better known as SPA. I would like to supplement what he said with a few additional comments.

The superphosphoric acid agreement involves the sale and delivery to the Soviet Union of one million metric tons per year of SPA for a period of 20 years. To accomplish this Oxychem must provide four million tons of phosphate rock and one million tons of sulphur per year for a total of 80 million tons of phosphate rock and 20 million tons of sulphur. In addition to the plants and mines, the project will require a port, ships, tank cars and terminals.

Oxychem recently acquired from Monsanto a tract of phosphate rock contiguous to our property, containing some 23-million tons of reserves. This insures that we will have enough phosphates for the Russian project and to take care of our captive needs. We are negotiating with other sulphur producers to insure additional supplies of sulphur.

We are expanding our chemical operations in Florida by an additional 250,000 tons per year of P_2O_5, or phosphorus pentoxide, the basic measurement of phosphates in fertilizers. We will build dual-purpose vessels for heating the SPA

going to the Soviet Union and refrigerating the ammonia coming back to the United States. Oxychem currently operates a port at Jacksonville, Florida, which can be expanded by acquiring additional land adjacent to the present facility. The port will have an SPA terminal, a sulphur terminal and ammonia storage. In addition, two other locations have been selected for ammonia and urea terminals. One will be located on the U.S. east coast and one on the gulf coast.

Obviously, this project requires considerable logistical planning. We have the capability to make this a profitable venture for Occidental.

W. Marvin Watson: Our next speaker is another one of the men Dr. Hammer mentioned. This is one of those fellows you've got to call "Doctor" because he has all kinds of degrees, and he worked for them and earned them. He went to work for Dow Chemical Corporation and got his spurs there. He worked for Union Oil Company and American Potash, and then set up his own firm. In 1966, he met Dr. Hammer who saw in him a man of great ability and innovation, a man who can dream and perform. We find him one of the most stimulating persons we can visit with in our corporate offices because he always has some exciting project he's working on. And, he has a good crew working under him.

Dr. Donald E. Garrett: It is very true, as Marvin has pointed out, that research and development and other technical activities under Dr. Hammer's direction and under the various divisions of Occidental are vigorously pursued. Two of them have already been mentioned in the discussions. One previously mentioned is the very exciting battery research project. And Dr. Hammer has already mentioned the garbage-to-oil and general refuse reclaiming operation that our group has developed.

I'd like to spend time with you this evening talking on a somewhat different project. We feel that Occidental is one of the leaders in the synthetic-fuels and energy programs. I'd like to talk about one of our very exciting approaches in this area.

For the past five or six years, the Garrett Research and Development division of Occidental has been vigorously studying the production of oil from our country's very large oil shale reserves. We have looked for a process that would be technically and economically sound and, at the same time, could be operated on a very large scale throughout the oil shale areas.

We came to the conclusion at an early date that the only realistic approach to this recovery, in our minds, was that of an "in situ" approach. It allows for lower capital investment. But, even more important, we felt it was the only method that could realistically face the ecological problems that could otherwise be encountered.

Dr. Donald E. Garrett, executive vice president for research and development.

Normal conventional processes require that the shale be mined and brought to the surface for subsequent disposal of the refuse. Oxy's process has to do with fracturing the shale in place and having combustion occur underground to retort the shale and merely pump the oil to the surface. This eliminates the massive retorting facilities, and the 95 per cent or so of the shale left as spent residue after retorting would never have to be disposed of on the surface but would remain underground where it was originally found.

After thorough engineering studies and intensive gathering of process data on this approach, including work by the Bureau of Mines, a full-scale test of this concept has been made during this past year and is currently still going on. We have asked the Stanford Research Institute to make an independent appraisal of this process, and consequently will make no public announcement until that is completed. But I think we are far enough along with our work to report to you tonight that preliminary indications reveal our technique has been immensely successful.

Our in situ retort, bear in mind, is a small one but it is consistently pumping 25 or 30 barrels of oil per day to the surface. Even though only a little over half fired, it appears now that we have already recovered in hand about 50 per cent of the oil in the formation, and thus the total oil recovery potential appears to be very high.

We believe this method can produce oil at prices com-

petitive with oil presently being produced in the Rocky Mountain area, and that the capital involvement would be comparable to that of an offshore drilling program. It is Occidental's belief that this method may truly show and lead the way for an economical and large-scale development of domestic oil from U.S. oil shale, which is the world's largest reservoir of oil. We think that commercialization could be possible under an accelerated program as early as three years, and probably no less than five years.

Occidental has a position here, and we think it is very well covered by patents. Of course, we would be licensing the process to others as well. We feel it offers a very attractive opportunity for Occidental and also for the country.

W. Marvin Watson: I don't know how to add anything to what Dr. Hammer mentioned about our next speaker, a man who spent 34 years in public service. Maybe I could point out that it was in the year 1954 when he joined with Congressman Holifield in sponsoring the Gore-Holifield Bill for the development of nuclear power. Back 19 years ago, he understood the importance of energy. Maybe that is what makes him a good negotiator. He represents our Island Creek Coal division in putting together the plan Dr. Hammer outlined. He has always been a great public servant. He was a great representative senator in Washington, and we find he represents Island Creek as an expert.

Senator Albert Gore: There was really a little more to the story than Dr. Hammer described. After the people in Tennessee promoted me to private life through an error in addition, mundane circumstances required me to try to make an honest living. Therefore, I tried one of the most honest-of-all professions — the law. And ere long Dr. Hammer, finding himself with some very improvident contracts made some years back with several utilities, both public and private, retained me to renegotiate these contracts. The contracts had been forged at a time when the coal industry was virtually at the mercy of the utilities — at least they had been written during a time when there was a buyer's market in coal.

Well, this situation had already considerably changed, and the signs clearly pointed that it was soon to be completely altered. But the utilities were very reluctant to recognize this. So it was a very difficult undertaking. After three or four months of touch-and-go, Dr. Hammer said he had reached the conclusion that I could more successfully negotiate these tortuous contracts as an executive of the company. He proposed that I come with Occidental and with Island Creek full time, in an executive position.

We have not achieved any miracles at Island Creek, but I do suggest to you that we have made some very solid progress. With a rise in demand for coal, and otherwise an inflationary economy, we chose to terminate every losing contract possible. We chose to shorten every long-term contract wherever possible. We started closing down our losing mines — putting them on standby conditions — while increasing our production of the more profitable coals.

Former United States Senator Albert Gore, an Occidental director and chairman of the board of Oxy's Island Creek Coal Company.

Island Creek president Stonie Barker put greater emphasis on cost control. We undertook to improve relations with our labor. We now receive better prices and we're selling better coal, and in these ways the Island Creek operations have been turned around. Our profits were greater in 1972 than in 1971. The first six months of 1973 showed a substantial increase in profits over the same period of 1972. We are confident that this upward trend will not only continue but will accelerate.

Only recently have many people come to realize the importance of coal in this industrial society of ours. Some people with longer-range views, of course, have been aware of it a long time.

Some years ago, for instance, after a Congressional recess, the late Senator Robert Kerr and I were talking, and I asked him what he did during the recess. He said he was out buying coal land. I said, "What on earth are you buying coal land for? Don't you know about the short profits in the coal business?" He said, "Yes, Albert, I know about that, but that's going to change. Some day, before very long, our natural gas is going to play out." He said, "I might not live to see it, but my grandchildren or my children will market the coal through the natural gas pipelines." He said, "I

think it will be a pretty good thing."

Well, his prediction may come true in a bigger way than we now realize. It must come true, because just recently I heard Secretary Simon, President Nixon's designee for energy policy, say in a public speech that, at the current rate of use, the total supply of United States natural gas, based on known proven reserves, would be totally exhausted in eleven years.

How are the people in New York, Boston, Kalamazoo, San Francisco, et cetera, going to cook their food, heat or cool their homes? I believe it will be through synthetic gas. If not, will it be electricity? If so, with what source of fuel other than coal could we generate such a large increase in electrical supply?

Fortunately for our country we have vast resources of coal, a great percentage of the world's supply of coal. We but await the technology and capitalization for the conversion of that coal, not only to synthetic gas but to gasoline and to lubricating oils. There is no reason for the United States to be dependent upon anyone else for our source of fuel.

I am happy to be in the coal industry. It is so central to a growing national need. I believe in it and am enthusiastic about it.

W. Marvin Watson: We now move into the three divisions of Occidental's oil operations. We actually have three divisions that work in the oil interests of Occidental.

The gentleman I introduce to you at this time has been in the petroleum business for 22 years. As he says, there are but a few oil marketers in the country. You live by your wits and your organization. Well, he has about the biggest operation of this type in the country. He operates the Permian Corporation, the finest domestic crude oil marketing division in this country. We are proud of him.

Thomas D. Jenkins: The principal business of our company is marketing crude oil. Incidental to our business is transporting crude oil by company-owned trucks to pipelines. Additionally, we have a wholly-owned subsidiary, Western Oil Transportation Company, Inc., which is a common carrier. Also, in addition to our private carrier operation and our common-carrier operation, oil field service work adds considerably in profits to our operations.

The energy crisis has enhanced our profit position which is now at an all-time high. Even though crude oil, our stock in trade, is in extremely short supply and demand is at its peak, our flexibility makes us even more competitive in new oil — oil that becomes available in other marketplaces. Permian purchases approximately 470,000 barrels per day in the United States.

We buy this production, assemble it at a central point and sell the crude delivered by our own trucks and by our pipelines or by pipelines owned by others to major oil com-

Thomas D. Jenkins, an executive vice president of Occidental and president of The Permian Corporation, Occidental's domestic crude oil marketing division.

panies and independent oil companies alike. We have the ability to effect exchanges with producers who make their oil available to us for other oil we own which we deliver to their refineries or to their designated marketplaces. As for independent producers who have no market or refining properties but are simply in the business of selling their oil, we are able to pay top prices and render the finest service in handling their production.

We are continuing our growth under the most adverse conditions that our segment of the oil business has ever known. The relationships that we have established with the major oil companies and independent oil companies alike have opened up new avenues of profit to us as a direct result of the energy crisis.

Examples of this are terminaling, pipeline construction on guaranteed amortization and return basis, and the most predominant and today the most profitable, that of processing a portion of our crude supply into finished products. I mean by processing that we simply deliver crude oil to an independent refiner or, in some cases, a major company, in exchange for refined products that are either sold at a profit or exchanged again for additional crude oil.

Within the last year, Permian has become involved in the marketing of foreign crude oils in the U.S. This has given us flexibility as well as a profit potential with international

George M. Williamson, an executive vice president of Oxy and general manager of the international oil marketing, refining and transportation division.

Robert A. Teitsworth, an executive vice president of Occidental and manager of its oil and gas exploration and production division.

companies which are also our domestic customers.

More and greater profit opportunities should present themselves as a direct result of our flexibility and our very strong established position in the crude oil market of the United States as well as crude from Oxy's discoveries in the North Sea, Nigeria, Venezuela and Peru and through other exchanges.

W. Marvin Watson: I would like to call on our youngest executive here tonight. He is the only person I know who went through another organization in the same steps he since has taken at Occidental. He was general manager for Nelson Bunker Hunt in Libya. He then became general manager of Europe and Africa for Nelson Bunker Hunt and moved to London.

In 1969 he joined Occidental as general manager of our Oxylibya subsidiary in Tripoli. Dr. Hammer saw the great potential of this young man and made him the head of our European complex which is a major part of our company.

George M. Williamson: Dr. Hammer covered the situation on Libya quite well, but there was one point I want to bring up because I have been asked a number of times in the last week or two what assurances we have that we will continue to operate in Libya. Why won't they take our 49 per cent away from us as has happened in Algeria and Iraq? I sincerely believe this will not happen in Libya for two reasons.

The Libyans need us for the marketing of the crude oil, and we were successful in buying all the crude oil back from them. I believe we will be successful in the future on that. Also, the Libyans need us as the operator of the concessions. They have often complimented us on the fact that they believe we conduct the best operation in Libya. We have some very capable and experienced people running our operation there.

I believe the Libyans will keep us there. I have no doubt that we will be in Libya for many years to come, and will continue to run a very profitable operation in that country.

W. Marvin Watson: The last gentleman I will introduce, who winds up our segment on oil, is Robert A. Teitsworth. He's been in the business 19 years. He was a geologist when he started in the oil business with Amerada Petroleum. Later, he came to Occidental and worked his way up to be the head of our exploration division and subsequently head of our entire oil and gas division as well as chief executive officer of our 82 per cent-owned subsidiary in Canada. When Bob and his staff recommended to Dr. Hammer that they select four basins in which to go to work where there were indications of low-sulphur oil, and Dr. Hammer made the commitment in behalf of Occidental in signing the contracts, Bob and his men followed that up with 100 per cent success — what more can you say to that?

Robert A. Teitsworth: It is a pleasure to be able to come here and report on a successful program we have been working on for a number of years. I think you will have to agree that at least as far as Occidental's oil and gas activities are concerned, the most important aspect is our outstanding achievement in carefully planning and executing a program of diversification on a large scale, essentially to replace or enlarge upon our Libyan overseas crude reserves.

Although it is slightly repetitious, I think we are all very interested in perhaps reflecting one more time on this program. We have made a major oil discovery in the British North Sea known as the Piper field of which we own 36½ per cent. We have made five new field discoveries out of five attempts in the Oriente jungle region of Peru. We are the first oil company to have drilled in that area other than Petroperu, Peru's national oil company. I think the first drilling by other companies may start there later this year, if not next year.

Then, after considerable perseverance in south Lake Maracaibo, Venezuela, we made one commercial oil discovery. If things go properly, we may get some production out of it as early as next year. Finally, we made two oil discoveries on our offshore Nigerian properties. Other than the North Sea, we have been carrying 100 per cent of the exploration effort in terms of staff and of money, and I am very proud to be able to report these results.

At this stage of development, we have made reserve estimates based on available geological, geophysical and other various data, and these estimates are constantly revised as new drilling occurs. You must remember that we have only been drilling on our properties for something less than two years. At the moment, we are drilling in all areas except Nigeria, where we are waiting to receive official government approval of our partnership agreement with the German oil company, Deminex.

I can give you just a very preliminary picture of the reserves which Occidental feels it has found to date. I might underline that these are based on our engineers' estimates, and at this stage there is no point in getting outside reserve reports on every discovery we have made.

Gross reserves of oil at this point are about one billion, four hundred million barrels with Occidental's share approximately 580 million barrels. Probably the most important aspect of these numbers is that at least half of these reserves are located in the British North Sea.

It is obvious that most of you know a good deal about our operations there, but for those who don't, we have drilled four wells in the North Sea, three on our blocks and one on a farmout block, and have come up with one major discovery. Once we finish appraisal drilling in the North Sea, we will return to wildcatting on our unexplored blocks and on prospects located on blocks on which dry holes were drilled earlier but which have not been condemned by any means.

In Peru, we expect reserves to increase rapidly as our 100 per cent success ratio indicates. I think I can report that, with each passing day, Oxy is lessening its dependence on Libya for its crude reserves and future oil production.

Dr. Hammer: Ladies and gentlemen, I am sorry we have been running a little behind schedule. We know that many of you want to ask questions. We will now throw the floor open to questions, and I will try to answer them. If I decide they should be answered by one of our executives or one of our men at the head table, I will direct the question to him.

QUESTIONS and ANSWERS

Question: *Just out of curiosity, do you have any exploration plans in Libya?*

Answer: *Dr. Hammer*

No, we have none at this time. We have no obligation, but if conditions warrant, we might consider it. We believe that we are doing very well there with what we have. We hope the increase in production from 330,000 barrels to 475,000 barrels per day, which was unsolicited and which was given to us by the Libyan government, will be followed by other similar welcome orders.

Question: *How long can production be maintained in Libya at 475,000 barrels a day?*

Answer: *Dr. Hammer*

We think a long time. As you produce a field, there is usually a decline in production. However, by injecting gas into our reservoirs we have been able to increase the recovery of oil almost double the amount usually recovered.

You are lucky if you get about 40 per cent of the oil in place. I believe we are getting as much as 70 to 80 per cent of the oil in place. We can reinject into the reservoir not only our own gas, but the gas of the Italian company, ENI. We are storing the gas for them and, by reinjecting it into our reservoir, we are increasing the life span of our reserves in Libya.

Question: *Regarding Occidental's fertilizer agreement with the Soviets, it was indicated on the Russian Fertilizer Trade Exchange that one million tons of superphosphoric acid would be delivered each year. Have the quantities that you would receive for ammonia and urea also been fixed?*

Answer: *Dr. Hammer*

Yes. We are going to build eight ammonia plants to have a capacity of approximately 1,500 tons a day each, and two urea plants which will have a capacity of about 3,000 tons a day for the two plants. We will receive fertilizer products of a value equivalent to the value of the superphosphoric acid which we will be selling to the Russians.

Question: *I wanted to get clarification on the compensation that you received from Libya. You indicated that you had received $135 million. Equivalent of $135 million in dinars? Also, you said that the money had already been received. Then later you said that you have the right to transfer any unexpended balance out of the country.*

Answer: *Dr. Hammer*

Right, equivalent in dinars. There will be no unexpended balance, because we have already expended a large share of that money on our Libyan taxes. Our tax bill in Libya runs over $1 million a day. On top of that, our purchases of the 51 per cent of oil belonging to the Libyans runs over $1 million a day. Since August 11th, we have been making those payments out of our bank account in Libya where we deposited the $135 million we received. We estimate that in less than 60 days, all the $135 million will have been expended. It will save us transmitting $135 million to Libya, and it will increase our cash flow for this year outside Libya by $135 million. Just to be on the safe side, we provided in our contract that if there were any unexpended funds, we would have the automatic right to transfer them abroad.

Question: *I was wondering, of the figure you cited for net income to date or through August, is there a portion there that is represented by a reversal of the previously established reserves for tanker losses, and can you identify it?*

Answer: *Dr. Hammer*

I'll ask Don Morgan or Jack Dorgan how much of the $46 million we have earned to date comes from a reversal of the reserve we set up for the tanker loss.

Donald M. Morgan:

I couldn't tell you the exact figure at this particular time. Our records don't break that out. Part of the tankers are used in our own business, in our own shipments. Part are leased out to third parties. The tankers we use in our business are charged to the operation at the world scale rate of 70 which was the figure established in the reserve when the reserve was set up. I believe we had a $32 million reserve at the beginning of the year and will probably have $9 million left at the end of the year. The difference would either be reflected in reduced cost of operations or in profits on third party charters.

Dr. Hammer:

We are in very good shape making profits now on our tankers above the level where they were before we took the reserves. There has been a complete turnaround in the tanker business, and especially in Occidental's tanker fleet. These profits are, to a large extent, due to the fact that the world scale rates are higher than they were before we took the reserve.

Question: *Do you think a $6.00 price will be sustained for Libyan crude, or perhaps an even higher price? What do you figure that your take per barrel will be at that price?*

Answer: *Dr. Hammer*

Well, for competitive reasons, we can't tell you what our take will be. But you can do some of your own calculating, I can tell you that, on our 49 per cent, we are making as much money as we made before on 100 per cent because we have been able to pass the added costs on to our customers.

As far as predicting where the price of oil is going, I'm afraid I am not in the category of stargazing. I think that where it now is at the price of around $5.00 a barrel, it is being accepted by all buyers. We haven't had one company on any of our contracts that didn't accept the increase in price and they are all now paying the higher price for our oil.

Any other questions?

We must have done quite well if we don't have any more questions. The hour is late. Thank you.

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